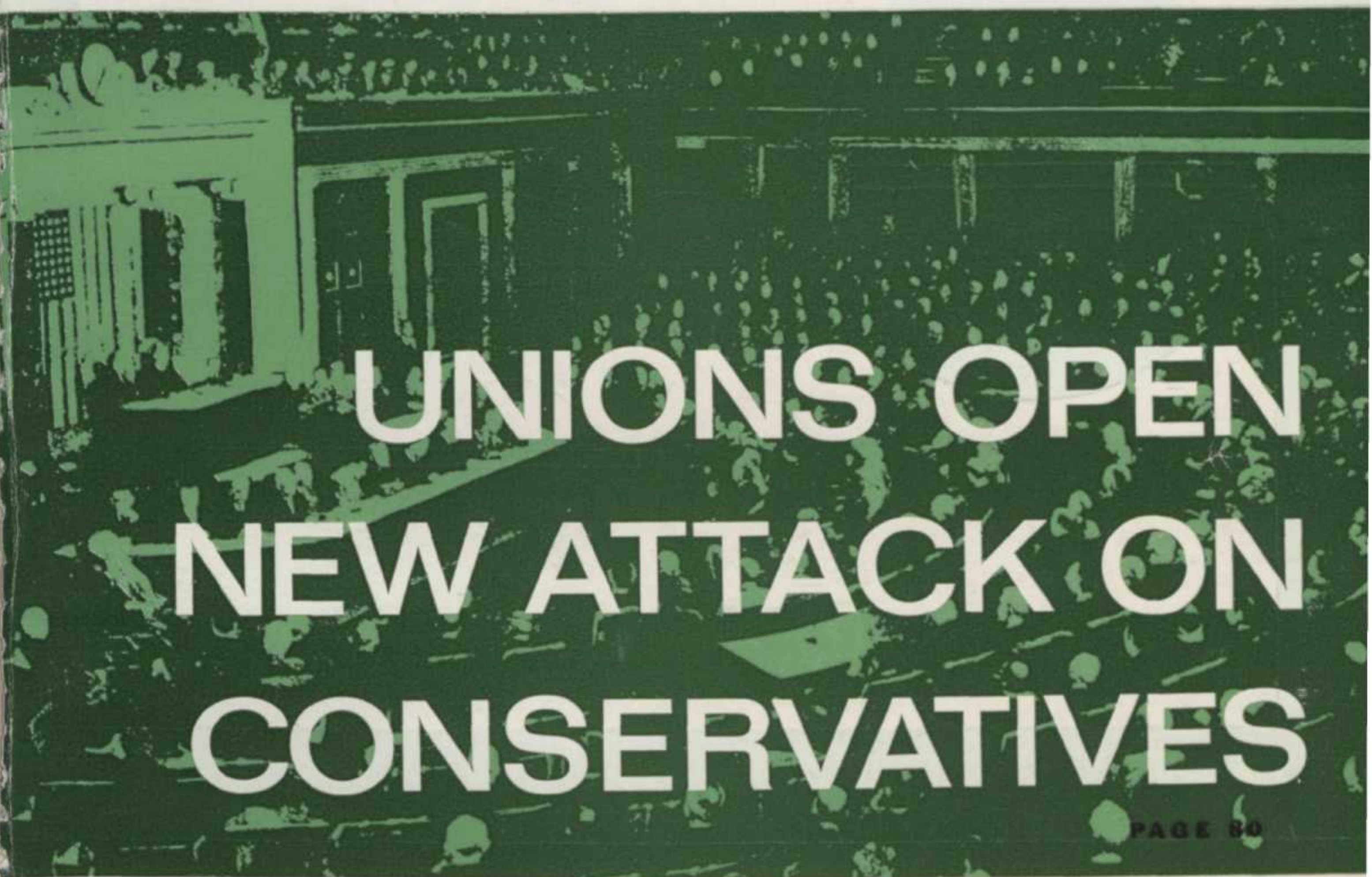
Nation's Business

A USEFUL LOOK AHEAD

MARCH 1963



UNIONS OPEN NEW ATTACK ON CONSERVATIVES

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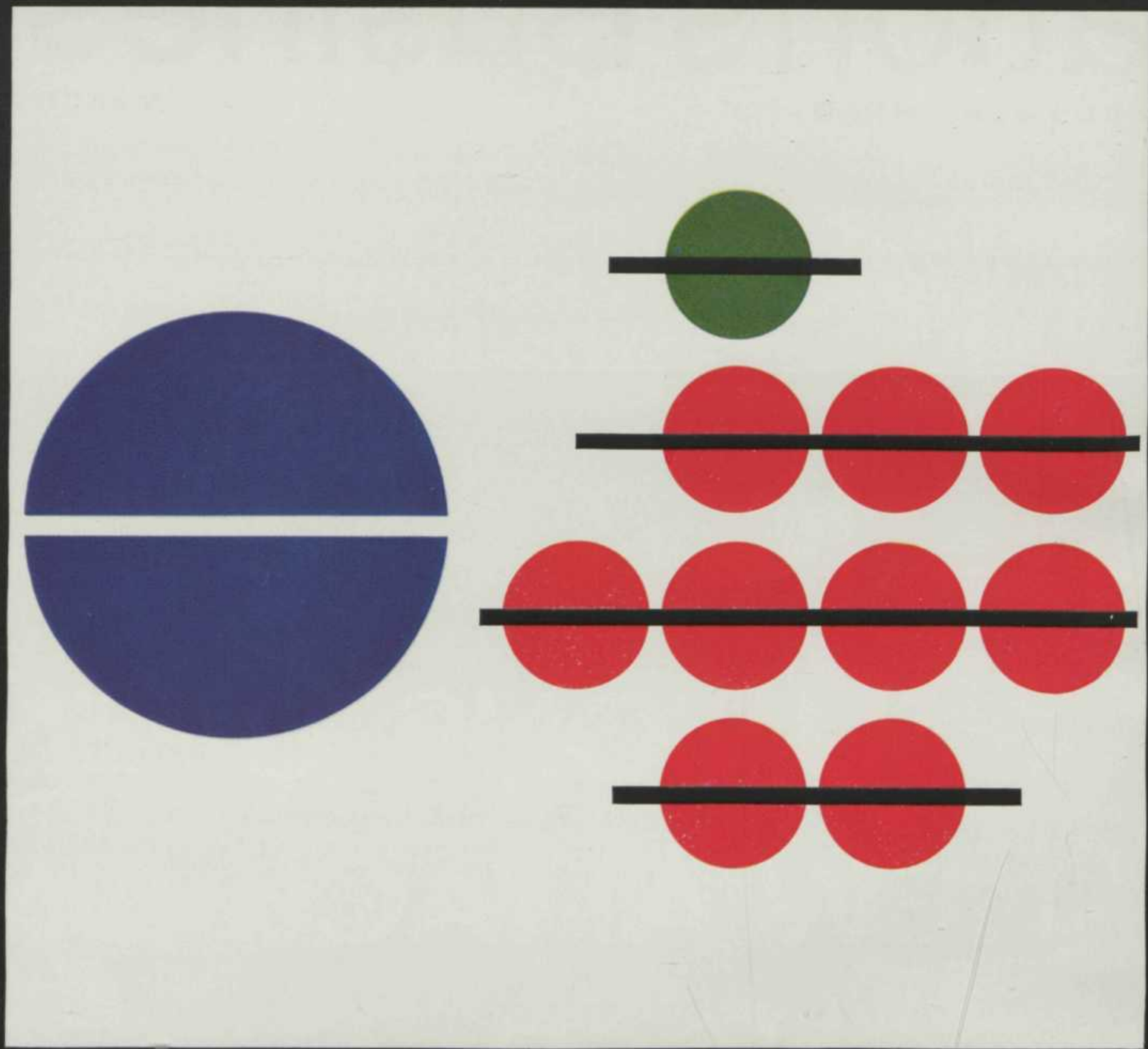
Why socialized health schemes fail PAGE 40

Europe's competitive threat will ease PAGE 34

Federal influence distorts education PAGE 31

When to speak up PAGE 88



The abacus, its working parts a handful of beads strung on rods, has survived for thousands of years unchanged. But the world has changed, and especially in techniques of production and distribution. Today, business and industry rely on complex machines to process the essential figures on which management decisions are based. Today, Underwood offers a complete line of high-speed, high-capacity adding, calculating and accounting machines that print all terms and results for verification and reference.

underwood

Nation's Business

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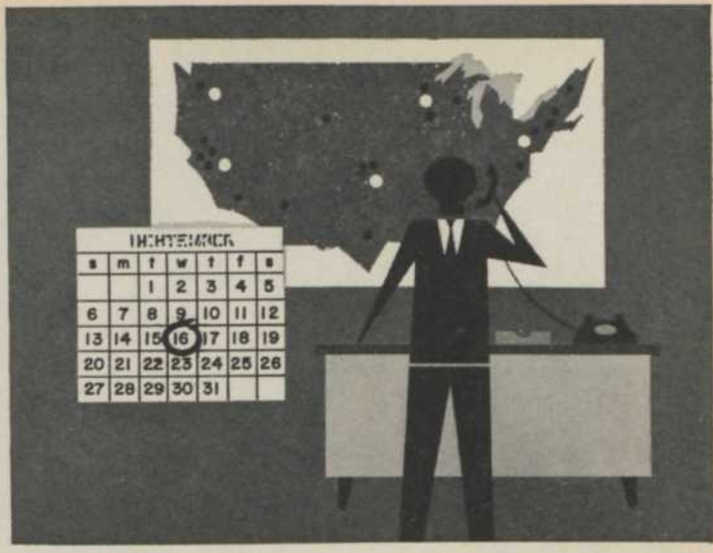
MORE THAN 750,000 SUBSCRIBERS IN BUSINESS AND INDUSTRY

Wasting too much time hunting numbers and dialing them wrong? A new automatic Card Dialer (above) stores often-called numbers on plastic cards — then dials them instantly for you. Especially useful to your business if you make a lot of calls to the same numbers.

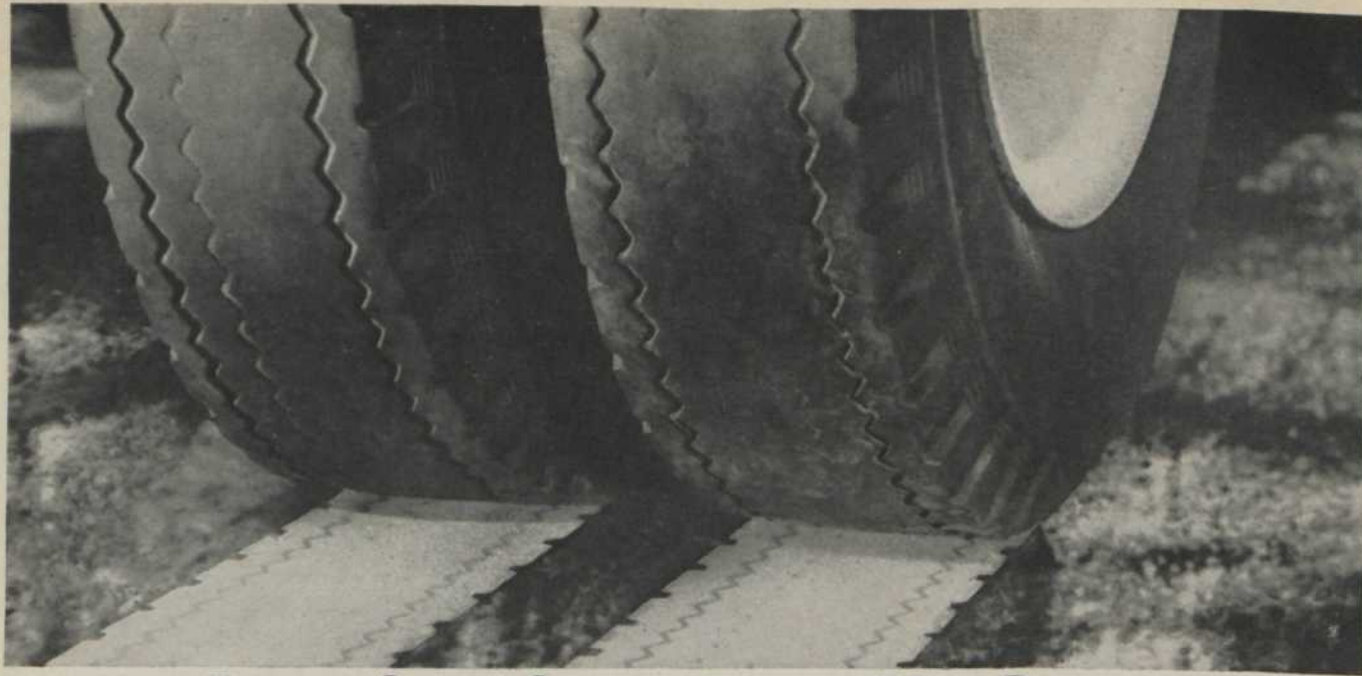


Competition moving in on your out-of-town accounts? Long Distance calls, timed to fit customers' buying cycles, can help you supplement field visits by salesmen and stay on top of customer needs at all times—at a fraction of usual selling costs.

Often need both hands free when you're on the phone? The new, improved Speakerphone lets you write, search files, move around your office as much as you like while telephoning. Also lets others share your calls, conference-style. Excellent reception quality.

Wish you could transmit your processed data faster? Bell System DATA-PHONE service will let you send business data (from cards or tapes) over regular telephone lines — at regular telephone rates. Transmission speed: up to 2500 words per minute.

BELL TELEPHONE SYSTEM



beginning to slip?...

or still have their grip?

"Fleet owners report that Firestone Transport-100's keep their tread 50% longer." This remarkable truck tire from Firestone pays off with better traction and longer wear, but doesn't cost you premium tire prices. Independent fleet owners from coast to coast drove and compared the Transport-100. They found two good reasons for its cost-saving durability: (1) The broad center rib on the Transport-100 practically eliminates squirming and scuffing. (2) Its wide flat tread face strengthens road grip and minimizes uneven wear. The thousand deep traction slots and deep wide grooves on the Transport-100 keep you rolling safely through all kinds of weather. Order Transport-100's in nylon or Tyrex® cord, tubeless or tubed at your Firestone Dealer or Store. On your new trucks or as replacement tires, you know what you're getting when you buy *FIRESTONE*—Your Symbol of Quality and Service.

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Transport ® T. M. Firestone ® T. M. of Tyrex, Inc. for rayon cord

MEMBER ATA AMERICAN TRUCKING ASSOCIATION

Firestone ***TRANSPORT-100***

WASHINGTON **BUSINESS OUTLOOK**

Look ahead two months. That's when you can expect to see first clues to probable course of tax legislation—if any—in this session of Congress.

Tax timetable looks like this: First came President's message, setting forth Administration's ideas and guidelines for legislation.

Next came government officials before House tax-writing Ways and Means Committee giving details, answering congressional questions about what Administration wants Congress to enact.

Now—this month—Ways and Means Committee will carry on with public hearings, airing many views about taxes.

After that—during April—committeemen will go into executive session (not open to public) to thresh out their own views on taxes, putting them into words.

Specific legislative proposal—in form of a tax bill—probably will be put together by committee in late April or early May.

Business activity is moving up—but gains are coming on wobbly knees.

Broad picture indicates ups and downs are averaging only about one per cent rise.

Total output of goods and services, for example, will go up.

But population increase and creeping rise in cost of living wipe out any but marginal gain per capita.

In other words, according to top-placed economists, business activity currently is marking time, little gain being realized in standard of living.

Worthwhile tax reduction—and attitude of labor.

These two things will strongly influence the outcome of business this year.

This is the way many business economists see the future.

Here's opinion of Frederick N. Goodrich, executive vice president, United States Trust Company of New York, large investment management firm:

"If only a token cut in taxes is made and if labor continues to call damaging strikes and to push featherbedding, the real growth could well be no more than one per cent.

"If labor difficulties are minor and if personal and corporate income tax cuts were to total $7 billion to $10 billion (on an annual basis) effective before midyear, three per cent is possible."

Mr. Goodrich makes it clear to Nation's Business that he thinks the latter possibility is unlikely.

Businessmen favor tax reduction—plus restructuring tax laws to restore incentive for more job-creating investments. But President's tax-cut plan fails to meet nation's investment needs.

Mr. Goodrich says:

"The President's tax proposals do not effectively carry out his stated economic objectives, which include stepping up the vigor of our national economy, an increase in job and investment opportunities and improvement of our productivity."

In many respects, Mr. Goodrich points out, "the proposals would be a step backward from these objectives."

Tax base would be narrowed—not broadened.

The program would "add a small amount to consumer purchasing power, on the whole, and would do little or nothing for incentives.

"The steep and accelerated progression in the personal rate schedule—when taken in conjunction with other provisions, including the

treatment of investment income—would unbalance, become worse and more stifling to incentive and productivity."

Mr. Goodrich, like other business economists, supports substantial tax reduction accompanied by restraint in spending and a labor and business legislative program encouraging to incentive and production.

"Since these elements are lacking in the Administration's program and since the tax proposals would in many respects make a bad tax structure worse, we strongly favor a recasting of both the tax proposals and the Administration's entire approach to stimulating and strengthening the economy."

Informed guess: Tax bill House committee will write in the next couple of months will look considerably different from Administration's proposals now being talked about.

Many changes asked by Administration will be dropped.

Example: Congressmen are unlikely to go along with limitation on deductions for home interest payments, state and local taxes and the like.

Present tax provisions on dividends also are unlikely to be changed.

There's this to remember: Tax-writing committeemen will base judgment on pressures —political and economic—they see building during next 60 days.

Here's preview of some of those pressures:

Spending—Voters are revolting against largest spending proposal in history, congressmen feeling pressure from home.

House Appropriations Committee will try to cut funds by as much as $8 billion (big cuts to be expected in such programs as foreign aid, for example).

Debt—Federal IOU's already exceed $305 billion, have been almost to $308 billion. Administration plans to go deeper in debt both this year and next.

There's strong probability of red-ink financing at least until 1967.

Next step, according to Administration's plans, would be $315.6 billion temporary debt ceiling to cover red-ink spending through the end of fiscal '64.

What these pressures add up to is this:

Congress will try to decide what kind of tax-legislation package might accomplish national goal of stimulating incentive and promoting faster economic growth without adding to dangers posed by limitless government spending and debt.

Congressional proposal—answer to Administration's plan—will take shape in coming eight to 10 weeks and nobody as yet knows for sure what form it will finally take.

Then the next round in the fight begins.

Don't count on final action before hot days of summer. Fresh fall breezes may blow over Capitol dome before final vote is taken. Action possible before then—but improbable.

Ratio of profits to total business done in America is declining again.

That's trend that'll set this year apart from past year.

Earnings improvement last year gave some hope that better times might be shaping up for the future.

But the rise is flattening out now. This means owners' share of business operations is declining again.

Profits this year, according to informed guesses in Washington, will be about the same as last year.

At best there's little hope for much more than slight improvement, despite Budget Bureau

and Treasury Department estimates that earnings are headed for a peak.

Here's gauge for the future: Total sale of goods and services this year expected to go up at least $20 billion. Business earnings may go up two per cent—if at all.

What over-all profit improvement there is will come mainly from boosting basic production efficiency.

That's another way of saying that businessmen will push cost-reduction efforts.

Many companies are sorting out low-profit operations, chopping them back in one way or another.

Example: Company doing more than $500 million a year volume has decided to discontinue one product line that brings some $40 million revenue to the firm each year.

Why? Because it's low-margin item, has been for years, promises to become more so in foreseeable years ahead.

That's top management's assessment and the decision was to act now rather than put off the pain sure to come.

Firm will move into other lines where profit margins have a brighter future.

Hoped-for result: Over-all profit improvement on lower sales volume, boosting profitable lines to make up for temporary volume cutback.

Similar plans are being put into effect by many firms—all sizes, all kinds of businesses.

Furniture manufacturer, for example, is narrowing production, cutting out styles that don't pay well, redesigning for new lines to go on sale soon.

Furniture and household equipment, up only three percent last year, beginning to move up faster now. Chart shows probable trend.

Gold losses will stop within a year, said government three years ago.

But that didn't happen. So deadline for stopping the drain from our national gold supply to foreigners was moved up to '62.

Didn't happen then either.

Now it's already being admitted that this problem won't be solved this year.

When? Maybe next year, say Washington officials. They're hopeful—but not very sure.

Meanwhile, some new forces affecting our international payments and gold situation are beginning to show faintly through the haze of complexities surrounding this national problem.

Outcome ultimately will affect your business operations in many ways (interest you pay on borrowed money, for example).

You'll find details on page 34.

The pen is mightier than the pistol.

Taxwise, that is, for Uncle Sam.

New twist on old saying comes from fact that government in year ahead will collect $8 million excise tax on sale of fountain pens, ball-point pens, mechanical pencils.

Treasury will get only $2 million excise tax from sale of pistols, revolvers.

Business opinion:

Employes can sell their ideas to boss for dollars

I WAS INTERESTED in "How to Sell Your Ideas" [December] but I am a little at a loss to understand why the author, a research psychologist, seems to make such a difficult proposition of this business.

He seems to be completely unaware of the fact that practically all modern companies have suggestion committees and suggestion forms, which makes it easily possible for any employe to "sell his idea to the management." I am sure you are aware of the fact that the large companies pay out millions of dollars every year for suggestions of all kinds from every class of employe.

Our company has had a suggestion committee for at least 30 years, and we have paid out many dollars for a number of very good ideas.

JOHN M. FRANK
Chairman of the Board
ILG Electric Ventilating Co.
Chicago, Ill.

▶ *We agree on the value and the widespread use of suggestion systems in American business today. "How to Sell Your Ideas" was directed to the layer of management just under the chief executive. These men seem to be above the level at which most suggestion systems are aimed.*

Meeting urgent need

We noted with much interest the article "How New Plants Help" from your December issue. In our efforts to influence the many publics of a large metropolitan area with the significance of new jobs, we urgently need any and all information available on the subject. NATION'S BUSINESS is certainly to be congratulated on the fine job it is doing in the field of business reporting.

T. JERRY WARDEN
Director
Greater Cleveland Growth Board
Cleveland, Ohio

First choice

If I were restricted to one business magazine, my choice would be NATION'S BUSINESS without question. It is one of the best edited, designed and produced magazines it has been my pleasure to read. It is excellent, and I don't mind saying so.

PAUL V. JOHNSON
Johnson and Johnson Advertising
Evanston, Ill.

Reds in Germany

The United States Mission to the North Atlantic Treaty Organization has informed us that the Federal Ministry of Economics in Germany wishes to distribute a translation of J. Edgar Hoover's article entitled, "Why Reds Make Friends With Businessmen" to security officers in German industry. This article was published in the May 1962 issue of NATION'S BUSINESS.

R. L. APPLEGATE
Director
Security Programs Division
Department of Defense
Washington, D. C.

The Public Pays

"Union Friends Dominate Federal Labor Panels" [February] was succinct and timely.

It is unfortunate that your writer had to nurture the cliché that either party "will have to give a little."

You left it to Mr. Philip D. Moore, of General Electric, to say what is so seldom realized: It is only management that gives; labor may not get all it asks for, but labor seldom if ever gives.

The recent dock strike is an example of where the public will ultimately be the one to give. What management apparently gave will be covered by higher subsidies, which come from taxes, which come from the public. The strikers gave nothing—not in automation, not in featherbedding, not in work-gang size.

ROWLAND H. BACON
White Sulphur Springs, W. Va.

Salesmen get help

"Executive Talent" [September] would be especially helpful to members of our sales organization.

We request permission to reprint this article for distribution to them.

ALFRED M. GOODLOE, JR.
Alexander Hamilton Institute, Inc.
New York, N. Y.

Ex Uno Plura

(out of one, many)

Now over 100 million h.p.

From a single basic design, a complete engine line. That's GM Diesel's unique *family of engines concept*.

Pioneered in the thirties—and proven by over 90 million horsepower—it concentrates all GM Diesel's resources on the perfection of a *single basic cylinder design for all engines*. What does this unique *family concept* mean to you?

It means you can meet every power need, from 20 to 1060 h.p., by using engines of just 2 different cylinder sizes—with up to *70% interchangeability of parts* between engines in each series.

It means *lower parts costs*—up to 50% less than for Diesels built in a flock of designs and cylinder sizes. Lowest servicing costs, too.

It means you can *meet growing horsepower needs* (without loss of existing parts inventory or maintenance know-how) merely by stepping up to the next engine in the series.

It means *the ultimate in standardization benefits*, with greater profits per engine on every GM engine you add.

No wonder so many equipment buyers specify GM Diesel power. Ask for it in your next piece of equipment.

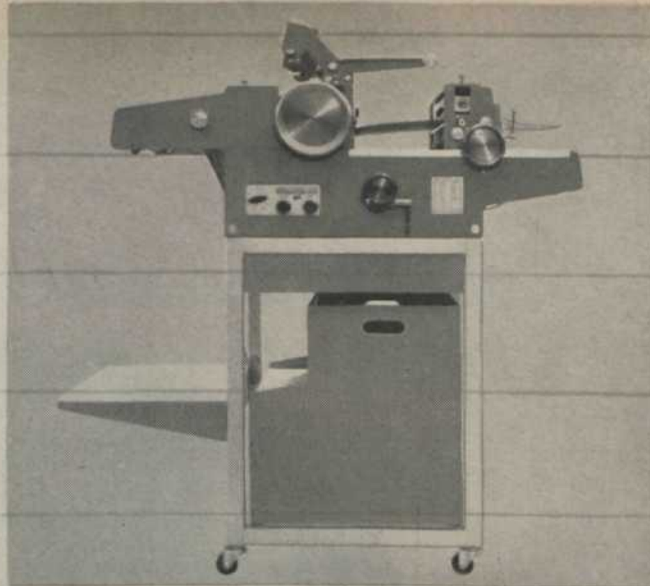
For details, see your Distributor, or write: Detroit Diesel Engine Division, General Motors, Detroit 28, Michigan. (In Canada: General Motors Diesel Limited, London, Ontario.)

GM DIESEL

SERIES 53 & 71 ENGINES

One proven design throughout the line builds greater value into every engine

automate your output...

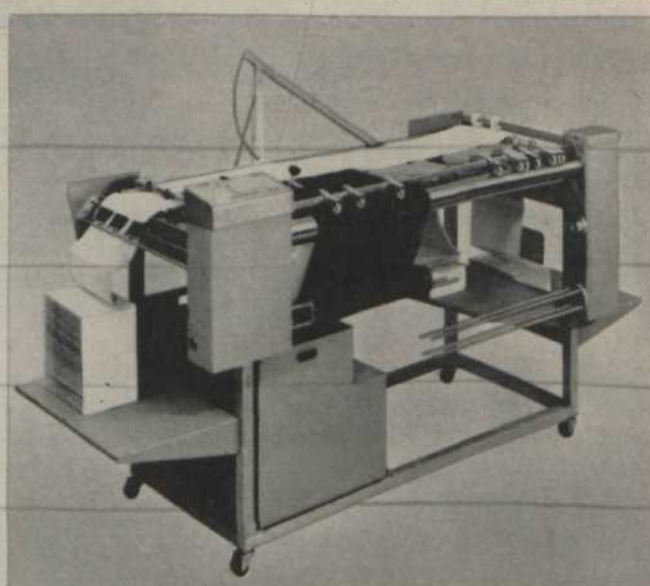


DETACHER for economical high-speed handling of continuous forms and continuous tab cards. Imprints with sharp, clear impressions in accurate register; detaches precisely; slits, removes margins cleanly, sharply; stacks.

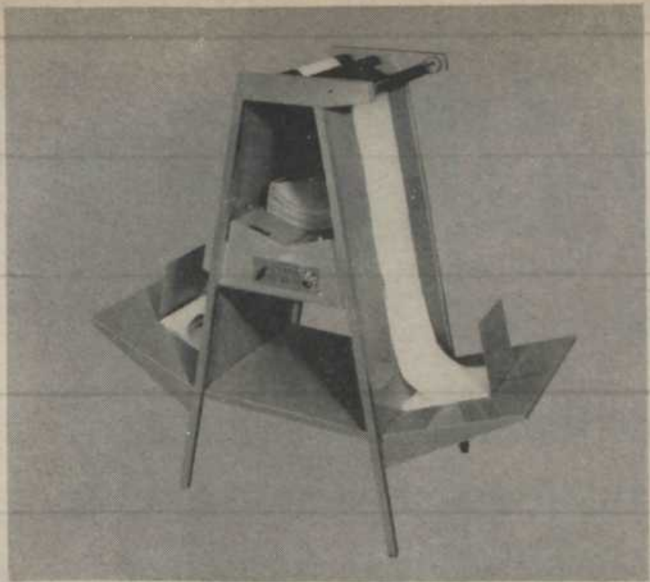
FORMS STACKER—A 'Conveyor Belt' type that mechanizes output of any Moore Detacher. Offers guaranteed sequence stacking. Enables Detacher to handle longer runs without frequent stops for unloading. A real timesaver.

GOOD LOOKS, GOOD TASTE—Moore's line of equipment has been redesigned to perform dependably, and to reflect the distinguished look that is characteristic of today's modern office designed for efficiency and speed.

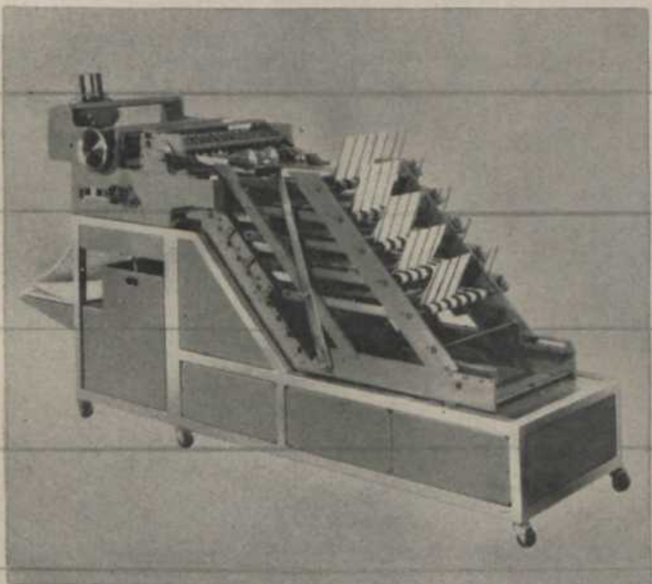
MULTI-WEB DECOLLATOR Model 8210 decollates multi-part continuous forms in one operation. Slits 1 or both margins; removes and rewinds carbon on spindles; separates, stacks all parts continuously into neat piles.



DELEAVER Model 230—Ideal for any deleaving-detaching operation where set detaching is required. Some parts can be folded continuous while 1 or more parts are detached. Use in tandem with any Moore detacher.



FORMS DECOLLATOR—The fastest decollator made for removing carbons from multiple-part continuous forms. Has a slide-out shelf for easy loading. Handles various sizes without adjustments. Refolds into neat packs.



DETACHER-SORTER offers off-line sorting; combines sorting with detaching of continuous forms. Handles 1-part forms and random-sorts the detached sheets into 1 of 6 pockets by optical scanning preprinted marks.

with Moore's new forms-handling equipment

These are some of the machines in Moore's family of forms-handling equipment—the industry's most attractive.

Each unit is designed and built to save time and cost in high-speed runs, by the world's leading manufacturer of forms and systems.

The machines have the clean modern design line typical of the styling of Walter Dorwin Teague Associates, and harmonize with any office decor.

This equipment is the hallmark of efficiency and control, with high operating speeds built in for quick handling of output. The machines are compact and sturdily constructed for trouble-free heavy-duty operation.

There is a Moore machine for every after-writing operation, dependably built to promote fast, smooth, uninterrupted work flow in processing of data.

Have you problems in handling forms? Ask the Moore representative for details of these machines (and others not shown) in the complete Moore line.

'The right business form for every form of business'

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EMERYVILLE, CALIF. · OVER 500 OFFICES AND FACTORIES IN NORTH AMERICA

MOORE BUSINESS FORMS INC

Executive Trends

- New incentive predicted
- What business critics overlook
- Personality loses its luster

Companies of the future may award bonuses to supervisors and managers who identify and help to develop promising employes.

This possibility is suggested by a federal manpower authority who works closely with private firms on problems of personnel and industrial management.

His contention is that the United States has made far greater strides in the conservation and development of its material resources than it has with its human resources.

"If we award bonuses to people for figuring out ways to get more productivity out of a machine, why shouldn't we do the same if they can show us how to make fuller use of the talents of people?" he asks.

This same authority argues that the nation faces an urgent problem today in upgrading work skills because there were serious deficiencies in our educational system 15 and 20 years ago. To some extent, he says, these weaknesses still persist.

His advice to businessmen: Inventory the skills and potential of your employes; keep track of what your people do on their own initiative to upgrade their skills; help, where possible, in the upgrading process.

• • •

Executive job prospects over the next few years will be brightest in technical fields.

Men who take the pulse of the job market—professional recruiters—expect lively demand for managers in engineering and scientific categories. They also foresee a sustained high demand for competent marketing and finance executives.

Note: Little increase in opportunities for female executives is anticipated by the recruiters, despite a recognized scarcity of management talent.

• • •

Here's help from an unlikely source—the Internal Revenue Service.

Under a new amendment to the federal tax statutes your company or trade association soon will be able to obtain valuable marketing statistics through information deduced from tax returns.

The Internal Revenue Service is setting up machinery to handle such requests. An IRS spokesman says the Service can handle small-scale requests now and hopes to be able to handle larger requests in the future.

The type of statistical information available includes consumer income profiles by metropolitan areas or political units, patterns of business expense within particular areas of the country, and similar economic data. Parties requesting information will, under the law, be required to reimburse the Internal Revenue Service for the cost of the job.

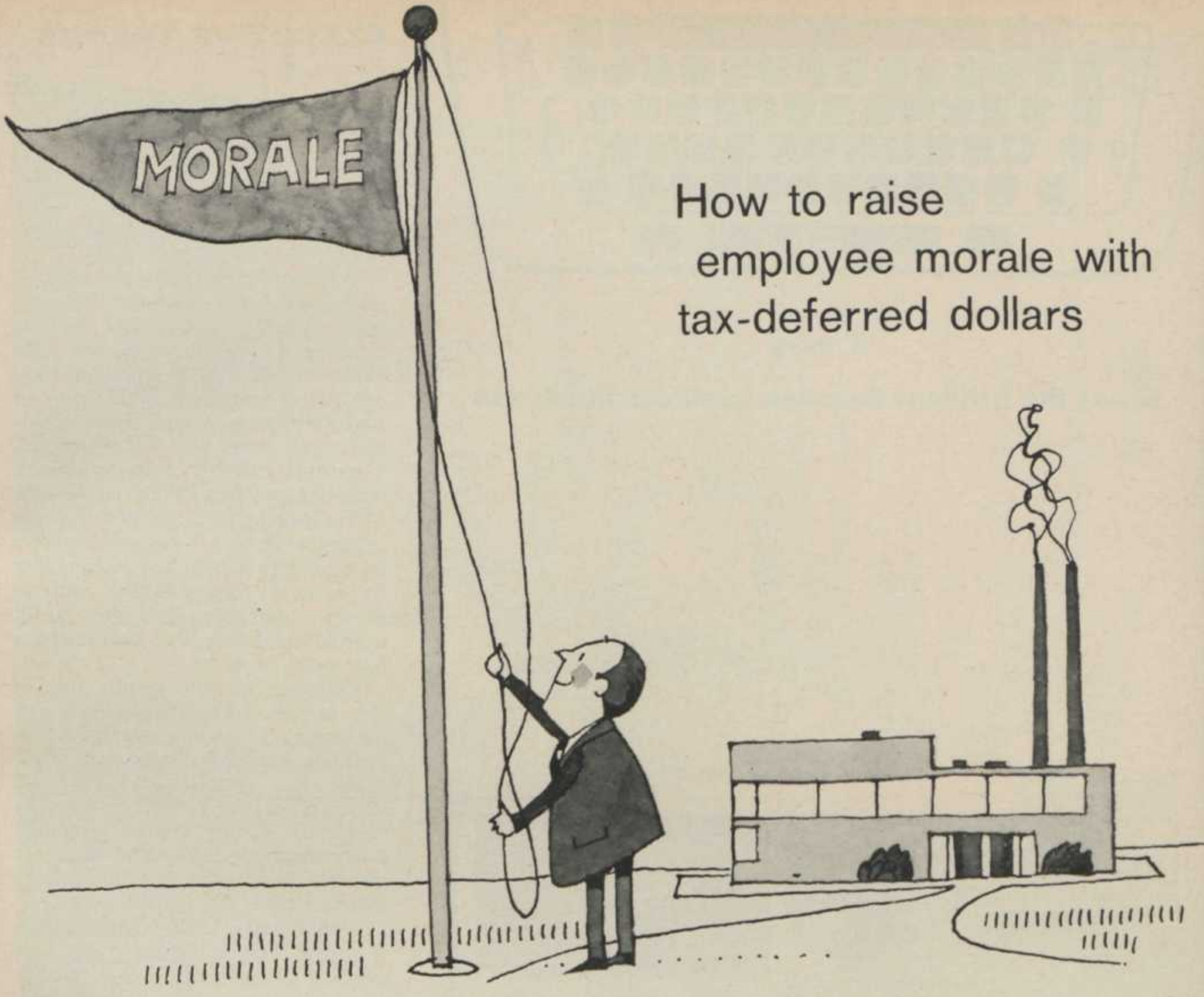
• • •

Personality is playing a declining role in the evaluation of a manager's performance.

At least that's the contention of a major Midwestern university, whose industrial relations reference center reports more and more companies are scrapping management appraisals based on personality traits.

In place of this kind of evaluation, companies are reported to be turning more to appraisals of executives

How to raise employee morale with tax-deferred dollars



It's as simple as setting up a qualified Pension Trust Plan, underwritten by Equitable. With a plan like this, everybody benefits:

Officers and employees may make money, but how much can they keep after taxes? How much can they save for the future? With a Pension Trust Plan, the corporation can build a fund that will let its officers and employees look forward to a rosy retirement.

The corporation benefits from the improved morale—and increased production—of younger employees who can count on new promotion opportunities as older employees retire under the plan. What's more, turnover is reduced, lowering operating expenses. And a Pension Trust Plan aids in attracting the best personnel.

Costs less than you'd expect: Because the government encourages private pension plans, the corporation's cost—depending on its tax bracket—can be as low as 48¢ on the dollar. In addition, the employees get important income and estate tax advantages.

New plans, liberalized benefits: Even if a corporation has only a few employees, there's a Pension Trust Plan to fit every situation or need. For complete details about Equitable's new Pension Trust Plans, and their liberalized benefits, mail the coupon below. Better yet, call The Man from Equitable. He has wide experience in helping corporations of every size and description provide Pension Trust Plans.

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EXECUTIVE TRENDS

continued

measured against a standard of results obtained on the job.

• • •

Critics of business have been enjoying a rather lengthy field day.

With or without portfolio, they've examined business—and businessmen—from a seemingly endless number of vantage points. No matter where they perch, what they see almost invariably adds up to an unflattering portrait. The executive, it appears, is a status-monger, a pyramid-climber, a power-seeker, a money-grubber.Take your choice.

Yet, in all this finger-pointing the critics overlook a commanding fact: In a society where the willingness to assume responsibility and to exercise self-discipline are badly needed qualities, the businessman has much of both.

Evidence of this stands out in the candid comments which some of the nation's leading executive recruiters made in response to a NATION'S BUSINESS survey. A majority of the recruiters say the desire to assume greater responsibility is among the one or two most important reasons why executives change jobs.

Significantly, the financial motive is rated low on most lists and omitted altogether on some.

• • •

Memo to union members: Are you earning more lately, but enjoying it less?

This question—admittedly facetious—may not be altogether without foundation.

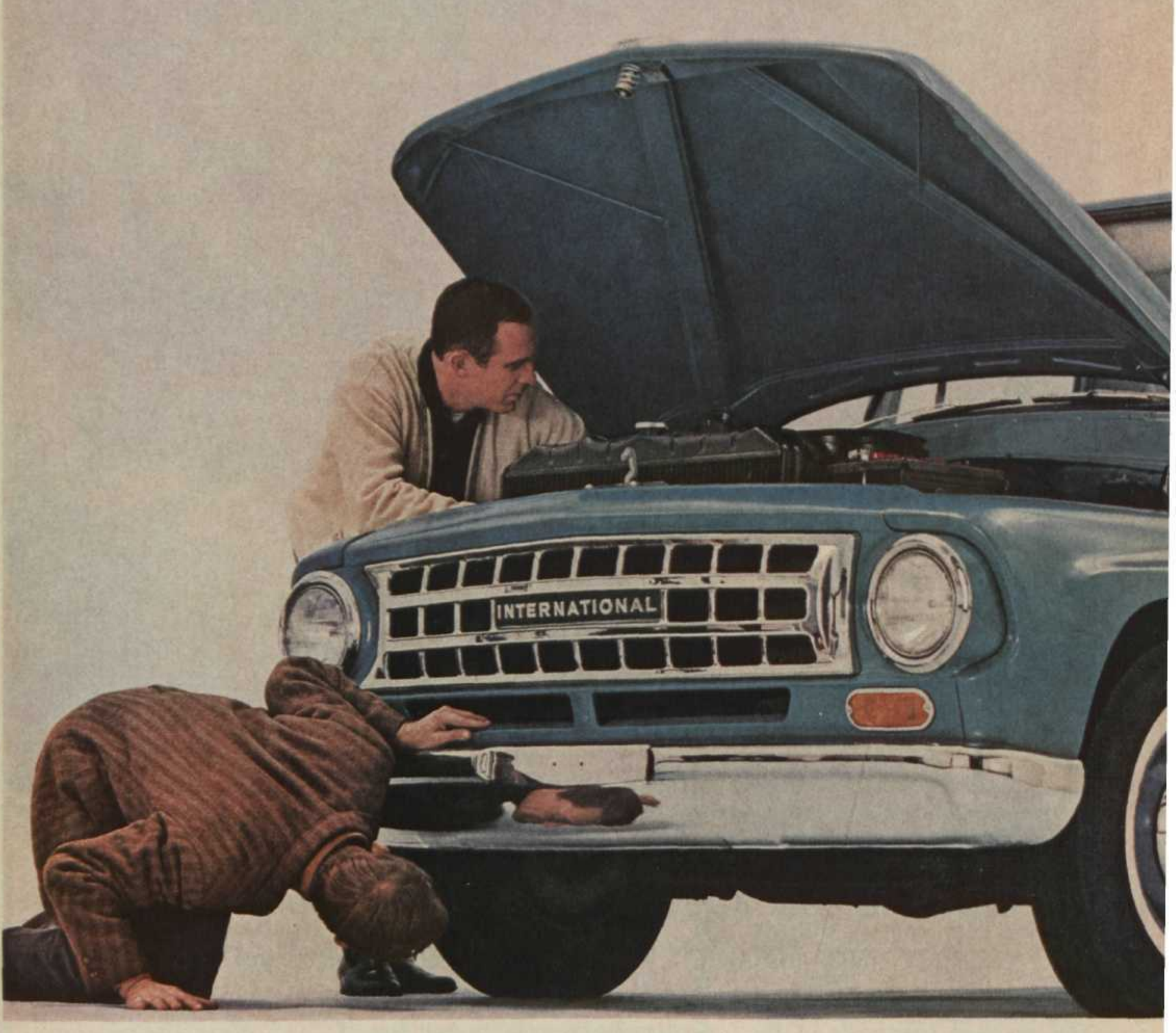
Dr. Arnold S. Tannenbaum, a program director at the Survey Research Center, University of Michigan, says that a by-product of unionism has been the creation of dissatisfaction among union members.

It's the opinion of Dr. Tannenbaum that union leaders, seeking to attain improvements in pay and working conditions, have riveted the attention of their members on real or alleged shortcomings in their jobs —with the result that members are made to feel more or less chronic discontent.

"The satisfied worker," Dr. Tannenbaum says, "is thought (by union leaders) to be a 'tranquilized' worker. In its zeal to protect itself against this 'tranquility,' labor has perpetuated a set of cultural norms

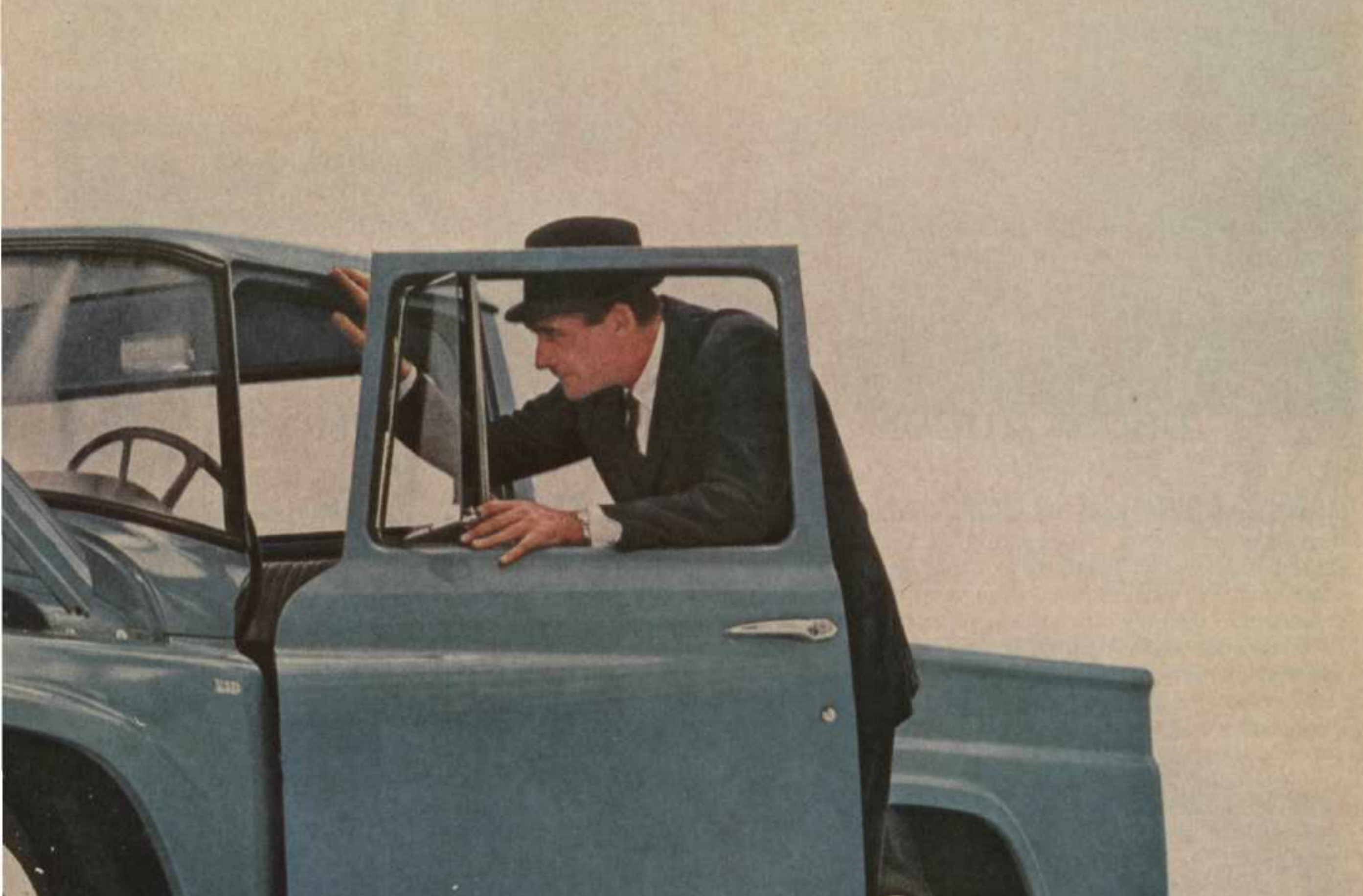
(continued on page 21)

How to find all the improvements in the



First, take a good look at the outside of this pickup—one of the great new INTERNATIONAL 1000-1500 Series. It's clean and handsome, with new grille design and single headlights. Then get inside and beneath the surface where quality is built in, to learn the true values of the newest INTERNATIONALS.

newest INTERNATIONAL Light-Duty Trucks



You owe it to yourself to go under the hood, check the power train, inspect the cab . . . and drive a new INTERNATIONAL. It's the best way to see why these trucks run better, last longer.

There's a brand-new 3-speed synchromesh transmission that's quieter and shifts more smoothly. Time-proven INTERNATIONAL engines—economy 6 and true-truck V-8's—perform better than ever! New 37 amp. alternator extends battery life. You get a positive crankcase ventilating system on the 241 cu. in. 6-cyl. engine, 266 and 304 cu. in. V-8's. New magnetic fan is available on V-8's.

Inside the cab, smart new nylon and vinyl seat coverings match eye appeal with durability. New panel has instruments easier to read—and they're real instruments, not passenger car warning lights. Fuse panel is behind the glove box door—easy to reach. In addition to your choice of two fresh-air heaters, there's a new low-cost recirculating heater.

Taken all together this new 1000-1500 Series . . . in all body styles, with GVW ratings up to 14,000 lbs.—proves to be today's "high-quality" light-duty line! Find this out for yourself . . . do it now at the nearest INTERNATIONAL Truck Dealer or Branch.

INTERNATIONAL® TRUCKS WORLD'S MOST COMPLETE LINE

International Harvester Company

Garden City Foods, Crown Point, Indiana. Butler Builder: John F. Chapple and Company, Elmhurst, Illinois

For businessmen who are fed-up with the usual uncertainties of construction

When profits are at stake, standard construction procedures can be mighty exasperating. Methods are slow. Quality depends heavily on the skill and responsibility of craftsmen. Bad weather delays progress. And each postponement of opening day is a loss of income chargeable to the cost of construction. Such uncertainties may seem unavoidable, yet they can easily be prevented.

When you build the Butler way, your building can be completed weeks to months sooner. Butler building components are prefabricated to speed erection; completely *standardized* to fit together perfectly. Steel structural systems and metal curtain walls are all mass-produced for absolute uniformity. Clear-span interiors give you more usable space for your money.

You always know exactly where you stand, using the Butler system. Butler offers seven classes of buildings in simple, metal-panelled structures alone . . . plus several higher grades of buildings. More shapes. More sizes. More quality levels. Thus you can keep costs in proportion to end-use; specify different quality and performance levels in the same building. Specify one wall system for purely functional purposes, another for prestige and maintenance-free performance. If you need the finest cover system, Butler's aluminum roof is so trouble-free, it can be offered with a 20-year guarantee at extra cost. Standardization makes your ultimate cost (first-cost, plus the cost of maintenance) predictable. Resists obsolescence. And you can expand economically with no demolition.

For your protection, Butler offers another plus. Your Butler Builder is a specialist in pre-engineered construction, with benefit of the knowledge and experience of the world-wide Butler Builder organization. Thus you have a *single*-source responsibility for more of the building components and the way they're installed.

For more facts, call your Butler Builder. He's in the Yellow Pages under "Buildings" or "Steel Buildings." Ask too about Butler's finance formula for progress, terms up to 10 years. Or write direct.

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Buckeye Sports Center, Peninsula, Ohio. Butler Builder: Modular Structures, Akron

EXECUTIVE TRENDS

continued

which define work in essentially negative terms. The image of the workingman which the labor movement provides is not that of a man enjoying his work."

He adds: "The labor movement has worked effectively toward enhancing the economic position of workers, and it has contributed in this way to their mental health as well as their economic well-being. But labor has not concerned itself directly with many of the important psychological problems of work—except to oppose the efforts of others in this direction."

• • •

If you find an employe reading on his coffee break, don't assume that the reading is a whodunit, at least not until you take a closer look.

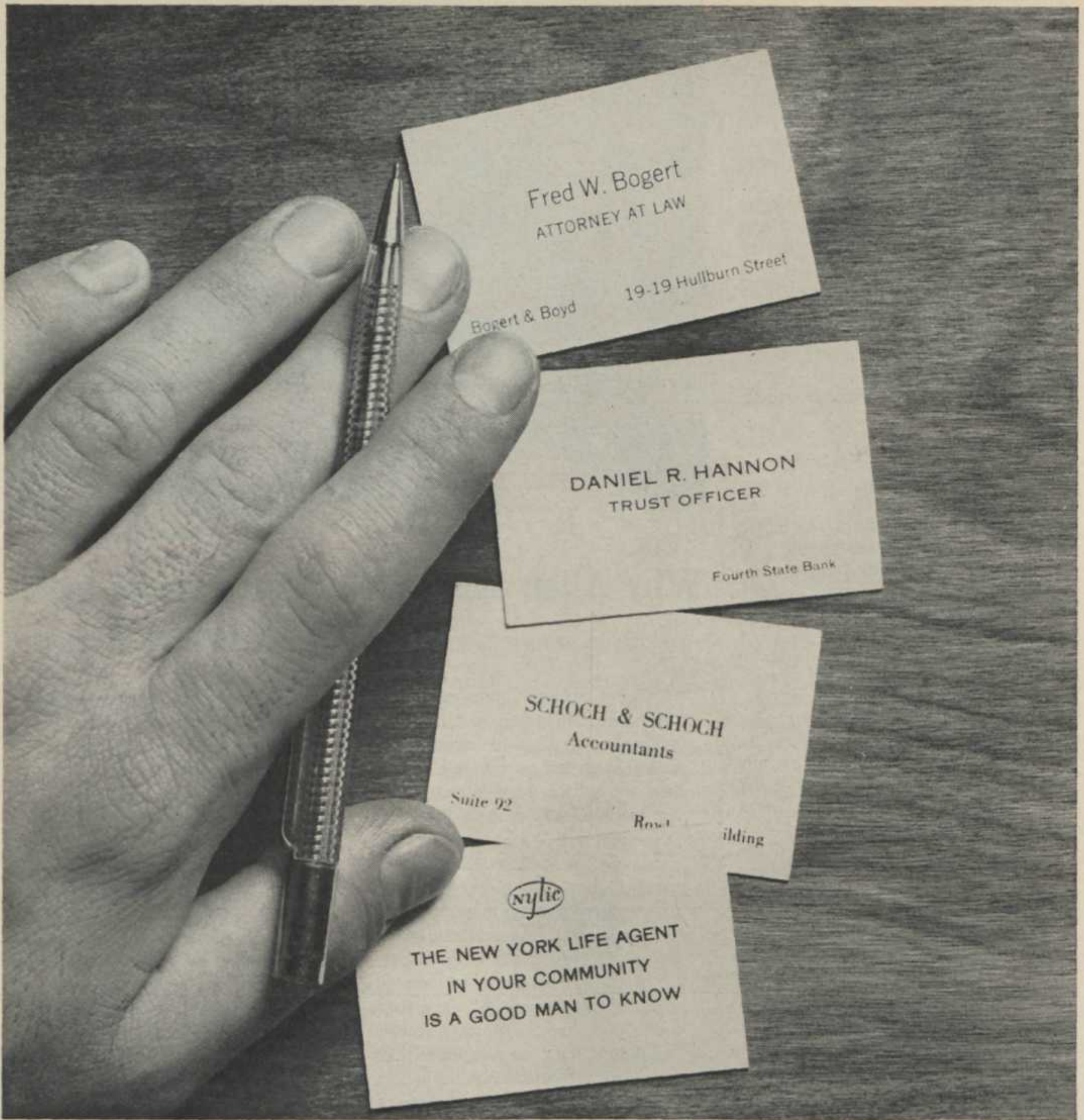
Could be he's one of the approximately million and a half Americans now enrolled in home study courses.

This kind of study, according to an officer of the National Home Study Council, represents an important means for upgrading the skills of the nation's workers to keep them abreast of changing job requirements. It also could help pack more executive potential into a firm's rank-and-file employes.

Some 400 courses are offered by correspondence schools, including many subjects directly related to employment. In some cases the courses are conducted entirely by mail; in others "resident" training augments the mail study. Some employers urge their personnel to take such courses as a supplement to training offered on the job. In not a few instances, the company pays for the training—a tab which might range anywhere from $25 to $500.

Note: U. S. educators who have visited the Soviet Union found increasing emphasis there on correspondence study for adults.

The National Home Study Council admits that business and industry are not yet completely convinced of the validity of home study courses. The Council attributes this to the black eye given the field by a few fraudulent mail-order operators and some substandard institutions. To inform yourself of those accredited schools whose standards have been okayed by a federally approved accrediting commission, write the National Home Study Council, 1601 Eighteenth Street N.W., Washington 9, D. C.



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New Frontier's thrust bogs down in political muddle

BY MERRIMAN SMITH

WHILE THE UNITED STATES ATTEMPTS to lead the world to acceptable conditions of peace, Washington itself in late winter is less than peaceful. If anything, the mood is combative. You name it, we're against it. If we name it, you fight it.

While these may be good signs of yeasty political growth, the somewhat ugly mood of charge and countercharge abroad, as well as at home, makes conduct of government business a frequently onerous matter.

The passive middle ground seems to be shrinking. Issues are such that it becomes almost impossible to avoid taking sides. Around the right and left poles of politics, there seems to be growth in encampments of those who regard detachment or objectivity as symptoms of detestable weakness.

This is the hour of the political scientist, but perhaps not his finest. That will come only when he is in operating control instead of a position of theoretical influence. In any event, these fellows pretend to a certain amount of clinical unconcern to protect their academic robes from political mud specks, but they do seem to enjoy firing omnidirectional fusillades from behind the protective vines of their campus walls.

Witness the eminent James MacGregor Burns, one of the early and worshipful biographers of President Kennedy. It should be said quickly that this professor knows more about politics than most academic theoreticians because he once ran for Congress and lost. His wounds, however, have healed over and once again he views our scene from the pinnacle of Williams College, where the air has a clarity seldom seen in Washington.

In his current book, "The Deadlock of Democracy," Professor Burns, whose name pops up occasionally in President Kennedy's press conferences, would abolish the seniority rule which governs selection of powerful congressional committee chairmen.

On paper this may seem like a frightfully good idea. Not a President in recent years has missed having the same wish at one time or another, particularly when a piece of pet legislation is withering slowly in the clutches of an uncooperative chairman.

Perhaps the main thrust (a word currently at the top of New Frontier favorites) of the Burns book is the need for "a congressional as well as a presidential victory in 1964."

Professor Burns says hopefully of 1964:

"The President would win so sweepingly that he would carry into Congress the kind of majorities that Roosevelt enjoyed after 1936. But unlike Roosevelt, the President would share not only his name and coattails in the election, but would share campaign funds, organization, personnel; so that again, unlike Roosevelt, the winning Democrats would have both the political support and the political obligation to back the Kennedy program. Hence 1964 would be a party victory, not merely an administration one."

• • •

The unacademic truth is that Mr. Kennedy will settle for just about any kind of victory he can pull off in 1964. This is not meant as a derogatory reference, but a simple political truth. This statement also reflects the fact that more than modesty or purposeful discouragement (known in political circles as running scared) are leading the President and some of his lieutenants to speak of 1964 as a year of strenuous battle. And perhaps this is one of the chief reasons so many Washington figures seem to be ready for a scrap as March blows in.

No less a White House political authority than Lawrence F. O'Brien, Mr. Kennedy's chief liaison man with Congress, is discussing the 1964 fight in public. The President, himself, speaks privately of the next elections being considerably less than easy for the Democrats.

Be it natural consequence or an attempt at the initiative, the Republicans are doing their dead-level best to encourage the same sort of thinking in the public. For example, Gov. Nelson A. Rockefeller of New York sees to it that the vast Washington press corps is supplied several times a week with mint copies of his latest statements.

Sen. Barry Goldwater of Arizona, another Repub-

Merriman Smith is the White House reporter for United Press International.

lican factor for 1964, also is being helpfulness personified in making known his views. Even the more fire-tested Democrats concede Senator Goldwater pushes his conservatism with charm and, pardon the expression, vigor. He's been hitting college campuses with the frequency and verve of a fraternity jewelry salesman.

Activities of Messrs. Rockefeller, Goldwater and their fellow Republican mentionables for 1964, Govs. George Romney of Michigan and William Scranton of Pennsylvania, are not entirely responsible, however, for the present sober regard with which true Frontiersmen approach 1964.

• • •

Professor Burns' theories aside, what does bother the thinking man's Democrat is failure to harness effectively the sunshine of Mr. Kennedy's personal popularity and thus put new strength behind his legislative program.

This is a curious, but not particularly new, political problem. For all his towering public stature, the late Franklin D. Roosevelt could not always win monumental battles between the White House and leaders of his own party in Congress. Mr. Kennedy has yet to come close to some of the fiery exchanges which flashed back and forth within his own ranks. For those of short memory, a sample: the powerful Alben W. Barkley quitting cold as F.D.R.'s majority leader of the Senate in an argument over tax legislation.

Of course, Mr. Kennedy has been in office only a short time as measured against the New Deal tenure.

Which brings our study of Washington's late winter mood back to something of a crux.

While the mood seems to be one of conflict, not a great deal is happening in the way of casualties, victory or defeat. The situation cannot be called a stalemate because there is a degree of activity.

Essentially Washington is in a period of frustration for all political factions. Virtually every move by either side is measured against 1964 or heavily influenced by external stimuli. The mood reaches far beyond Congress and into the international arena where French President Charles de Gaulle, for a moment in history that might not be so fleeting, has come close to, if not overtaken, Soviet Premier Nikita S. Khrushchev as a source of American preoccupation.

Despite several spots of international excitement, Congress remained in a sluggish mood. As the President submitted program after program, first there was the expected energetic reaction pretty much along party lines. Then both houses seemed to slide back into internal procedural struggle—not slugging, but sluggish pulling, faction against faction and frequently within party lines rather than across them.

It was popular among some intellectuals to maintain that, by not following the President's leadership, Congress was bucking public opinion as reflected in Mr. Kennedy's high standing among the various opinion polls.

In this connection, foreign students of the American system long have expressed critical amazement that public opinion cannot be brought to bear on the President, his Cabinet or members of Congress except during election years fixed by law.

The fact that an unpopular government cannot be ousted or a balky parliament dissolved in midstream by a variety of devices widely accepted in other countries has particularly interested scholars in Great Britain, where this sort of thing is possible. It does not frequently occur that a Prime Minister is forced out through a no-confidence vote in Commons, but the threat is sufficiently strong to keep him tuned constantly to public opinion, possibly more so than the American chief executive.

If Congress seems to be taking its own sweet time in getting to the center of Mr. Kennedy's program; if House and Senate committees seem more inclined to investigate than accept the administration explanation of such hot items as the Russian build-up in Cuba, it may be that the lawmakers are moving with deliberate slowness.

This applies to some leading Democrats, as well as to their political opponents who, strangely enough, turn out in some cases to be Democrats, too.

The President, himself, would agree that the midterm voting last November drew no sharp arrows pointing the direction in which the public wanted government to move. Unarmed with decisive election returns which Professor Burns wants for him so badly in 1964, Mr. Kennedy has chosen to push this year for a program certainly more moderate than his audiences of 1960 would have expected.

The newest element in the Frontier program this year is Mr. Kennedy's tax proposal. At the start, his omnibus plan generated extensive public excitement. On second reading, however, many Americans came to the conclusion that chances of paying appreciably lower taxes this year were quite remote.

Without doubt, the Administration will push the tax program. But what the President wants and what Ways and Means Chairman Wilbur D. Mills permits him to have are vastly different matters.

• • •

It's possible that history will prove Mr. Kennedy and his economists to be essentially sound in their beliefs that striving for federal budgetary balance this or next year could trigger a real recession. It's also possible that time will prove the President to be right about the harmless nature of running several more large federal deficits—if this policy strengthens the economy and helps to increase national productivity.

While waiting for history and time, however, Representative Mills and his opposite number in the Senate, Chairman Harry F. Byrd of the Finance Committee, are not disposed to rush into tax reduction unless Mr. Kennedy pulls down federal expenditures appreciably.

Thus our skimming of Washington finds March pretty much in a muddle. Our leaders know where they want to go, but the going is slippery and slow. The traffic is dreadful, largely because so many drivers have difficulty seeing the road signs.


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Deliberate pace in Congress safeguards your rights

BY FELIX MORLEY

BY SOME DISTORTED LOGIC the merit of a legislative session has come, in the minds of many, to be judged by the number of laws enacted. If these are numerous, the legislature is thought to have done well. If the proportion of side-tracked bills is high, the session is deemed a failure.

Of course, every President has always felt that way about the bills he personally sponsors. Just 15 years ago Mr. Truman was denouncing the "Do-Nothing" Eightieth Congress. A generation before that Woodrow Wilson was furious with the "little group of willful men" who blocked him in the Senate. Indeed every chief executive, not excluding George Washington, has at one time or another lost his temper with the Congress for cutting down his legislative program.

What is new is not irritation on the part of the frustrated party leader, but the now widespread belief that this frustration means our system of government is not working well.

• • •

All too clearly the popular misconception indicates that we have forgotten how the United States originally came into being. Politically speaking, the Revolution was defiance of a British Parliament which was passing too many laws obnoxious to Americans. "The history of the present King of Great Britain," says the Declaration of Independence, "is a history of repeated injuries and usurpations"—all applied by Parliament with royal assent. The colonial case against George III was not that his legislature "did nothing," but that it did too much.

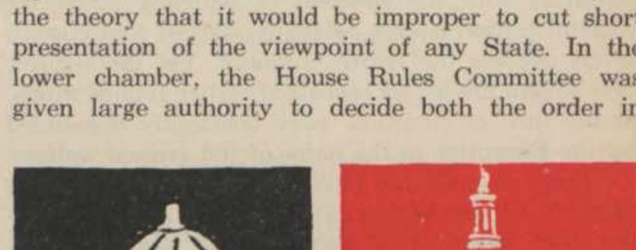
It is not only our own history, but the whole theory of democratic government, that is ignored by those who argue that the more laws we have, the better off we are.

When the Constitution was written the office of President was given much power. But even more care was exercised to insure that this power should constantly be held in check. A bicameral Congress was established, making the separate assent of both Senate and House necessary for the enactment of any bill. Admittedly, this was to establish a double sieve, through which proposals could drain slowly.

The reasons for this restrictive machinery were clearly understood. It was believed that statute law could be kept at a minimum for people with religious inclinations. Left to themselves they would, on the whole, govern themselves according to moral principles, devoting their freedom to mutually helpful undertakings.

And, in addition to this pleasing trust in human decency, there was the determination that no American President should ever be able to acquire tyrannical power. The primary duty of the Congress should be to prevent that outcome.

To emphasize this, both Senate and House tightened restrictions when they established their respective rules of procedure. In the Senate, for instance, the right of almost unlimited debate was affirmed, on the theory that it would be improper to cut short presentation of the viewpoint of any State. In the lower chamber, the House Rules Committee was given large authority to decide both the order in



State lawmakers have the power to call conventions to propose amendments to the nation's Constitution

which bills would be considered, and the conditions of amendment which would be permitted.

Critics of these currently controversial practices can unquestionably show that they have been abused. Filibustering in the Senate has sometimes been

practiced for merely obstructionist purposes. The House Rules Committee has more than once used its special powers to deny the parent body opportunity to vote.

But it is just as clear that there are some who seek to eliminate any traffic lights or rules which threaten delay in the fulfillment of a presidential desire. In the attack on parliamentary roadblocks there is today often unconscious imitation of Hitler's attitude toward any opposition. Why should a dedicated leader, he asked, be forced to waste time "making a herd of empty-headed sheep realize the genius in his plans?"

• • •

Hitler himself was the best possible answer to this question.

But there is no need to take such an extreme case to show that "genius" in the plans of a political leader can all too easily be assumed. Time and again mankind has had occasion to regret statutes that looked good in prospect, but which in practice worked extremely ill.

A classic illustration in American history is the Prohibition Amendment. Pressured through on a wave of emotion during World War I, it was as wholeheartedly scrapped after a few years of uniformly unhappy experience. There is a lesson in the opening sentence of the Twenty-first Amendment, which simply says: "The Eighteenth Article of Amendment to the Constitution is hereby repealed."

There are many other instances of bitter payment for hasty legislative action. Today the Congress is wrestling with the problem of reducing taxes, the Administration having belatedly learned that current levels depress the entire economy. Yet the reforms here sought are in fact repeals of earlier actions which, at the time of adoption, were insistently demanded by the Executive in the name of the general welfare.

"There is need for public education," says Presidential Adviser Walter Heller, on the seeming paradox that lower taxes may produce more revenue. There may be even more need for educating some of the professors on the fact that the legislation they urge is almost without exception likely to be improved by careful congressional scrutiny.

This is not to suggest that Congress should be unduly hesitant about passing any laws. On the contrary, it is often desirable to push for legislation which the White House fails to promote because it might alienate some vested interest, such as well organized labor unions, which wield strong political power. Legislation of that character is conspicuously lacking among the "must" bills which the Administration is currently urging.

Behind the whole conception of representative government we find two well tested principles which, taken together, have established freedom for those who follow them. One principle is that all proposed laws must be carefully examined in advance by freely elected spokesmen of those on whom these laws will operate. The correlative principle is that the spokesmen for the people must always be in a position to pass laws binding on the monarch and all judges and officials who stand close to the throne.

The substitution of elected presidents for hereditary kings has in no way affected the validity of either of these twin fundamentals of democratic government.

• • •

The Founding Fathers, indeed, foresaw that the Congress might on occasion need to be pushed toward action distasteful to the President. That is the reason for the alternative method of amending the Constitution, as provided in its Fifth Article.

Under this provision two thirds of the State legislatures may at any time force the summoning of a special constitutional convention, whether or not desired by the Congress and/or the President. Changes in the fundamental law proposed by such a convention, when ratified by three fourths of the States, would be as valid as any amendment originally initiated by the Congress itself.

The purpose of this alternative method was to emphasize that in the United States the people themselves are the sovereign power, whether acting through the agency of the federal Congress or, if they prefer, through their State legislatures, bypassing Congress.

Although this procedure has never been followed to the end, its mere availability was instrumental in securing the direct election of senators. Early in 1912, two thirds of all the State legislatures had either passed resolutions demanding the election of senators by popular vote, or were about to do so. Thus prodded, the Congress itself proposed what is now the Seventeenth Amendment, to avoid the alternative constitutional convention that otherwise would certainly have been summoned. It was ratified by the requisite number of States within a year.

Currently the Council of State Governments is calling the attention of State legislatures to this latent power. They are reminded that it can be used either to force reforms that a President opposes, or to restrain both Congress and Supreme Court if these organs seem to be mere rubber stamps for whatever a President may advocate.

The present Congress is obviously unlikely to give Mr. Kennedy more than a fraction of the armory of new powers for which his various messages have asked. This, with the President proposing and the Congress disposing, is the way it was intended to be. Only if the Congress should abandon its properly critical attitude would it be desirable to call in the State legislatures as a second line of constitutional defense.

But it is well to remember that the Constitution definitely provides for such action and that its occasional use was envisaged by the Founding Fathers. The point is emphasized by Alexander Hamilton in the closing paragraphs of the final *Federalist* essay.

Whenever "the general liberty or security of the people" are threatened by centralized aggrandizement, he wrote, "we may safely rely on the disposition of the State legislatures to erect barriers against the encroachments of the national authority."

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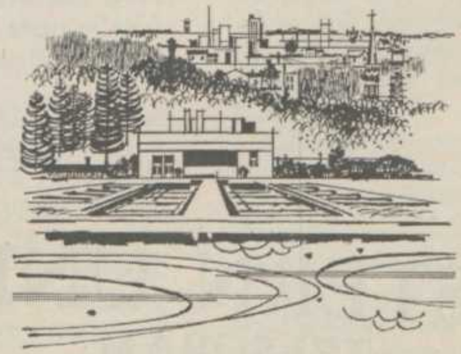

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Federal influence distorts education

U. S. programs create imbalance in colleges

NEW PROOF of the mess federal intervention creates in education has just come to light in an investigation sponsored by government itself.

Many university presidents and other educators have warned for years that government research and student-support programs are distorting the educational system.

Widespread conviction that federal subsidies would cause similar damage to grade and high schools has been an important reason Congress has rejected them.

Now President Kennedy is recommending a vast expansion of government educational activities. And many colleges are clamoring for more federal money.

New criticism arises from a nine-month investigation of federal educational programs completed recently for Democratic Rep. Edith Green of Oregon, a strong supporter of expanded federal programs and chairman of a House higher education subcommittee.

The study was made by John F. Morse, a former official at Rensselaer Polytechnic Institute.

Some of his major observations, as presented in testimony before the subcommittee and an interview with NATION'S BUSINESS:

▶ The government is, in effect, committed to the postgraduate support of virtually the entire source of new scientific manpower, under programs that are already near the saturation point.

▶ Sharply expanding fellowship programs are skimming off top graduate talent, leaving even some major universities hard put to meet research commitments and dependent on the lowest caliber graduate students to perform their vital role of instructing undergraduates.

▶ Chaotic accounting and piecemeal sponsorship of often overlapping programs by several agencies make it impossible for any agency—let alone one individual—to keep track of what government is doing.

▶ Attempts to restore balance to the government's activities lose out in competition with costly, self-perpetuating federal activities in education and other fields—"Nineteenth Century programs in 1963."

Mr. Morse says his assignment was to answer the question:

"How much overlap and duplication is there in the whole governmental process" involving higher education?

What he found was a picture of confusion.

By Mr. Morse's estimate, government programs now entirely support the full-time study of some 35,000 graduate students at the predoctoral level in the physical and life sciences—including mathematics—and engineering, plus another 20,000 whose major support is derived from federally sponsored research.

The nation's undergraduate institutions produce only some 98,000 students in these fields, he points out, and this figure includes many who are, in effect, education majors and others who, although pure science majors on paper, lack the competence to go on to successful graduate work.

This is what leads Mr. Morse to observe, as he did before the subcommittee:

"One wonders how much larger these programs of support can be and [still] profitably award fellow-

ships that are going to pay off in terms of really producing more high-level manpower."

The National Aeronautics and Space Administration disputes his point that the saturation mark is being neared, Mr. Morse concedes, and has set a goal of producing 1,000 Ph.D.'s a year, which he estimates will cost $25 million annually.

Theoretically, he adds, there should be no increase in the educational imbalance as over-all college enrollments rise.

But, in practice, the number of students in physics has failed to keep pace and the number in engineering has actually declined.

As Harold Orlans says in a study of 36 institutions published by the Brookings Institution:

"Surprisingly, the vast sums invested in science have not yet significantly raised the proportion of either undergraduate or graduate enrollment in the sciences within the liberal arts curriculum. It is the social sciences which have gained most from the relative decline of enrollment in the humanities."

Mr. Morse testified: "There is widespread evidence that the great amounts of support available through fellowships and through the training grants and through sponsored research are making it almost impossible to find teaching assistants which have traditionally been one of our major methods of teaching undergraduate students."

"I know of no serious study of what has happened to undergraduate science studies in major universities," he adds.

But Mr. Morse personally suspects that such a study would show that a large percentage of instructors is drawn from foreign students lacking in language and technical competence, and others without full competence.

He was not too surprised, he tells NATION'S BUSINESS, when a department head at one respected institution complained privately about the caliber of graduate students on whom he was forced to rely.

Far more disturbing, he says, was a similar report from a well endowed major university that one would think immune from such problems, which he traces directly to the federal programs.

"In many universities," he told the Green subcommittee, "the amount of research that is contracted for by the universities with the federal government is limited by the availability of graduate student assistance. In most of these institutions there is a very severe problem of getting enough graduate students to carry on the research they are already committed to."

The Orlans study adds these points:

- The concentration of federal funds (in some 100 universities), by raising salaries and offering superior working conditions for scientists, complicates the staffing problems of lesser institutions.
- The "research outlook" of federal science agencies, fostered by their programs, is changing the academic scientist's job by de-emphasizing teaching.
- This emphasis on research, furthermore, tends to increase class sizes and thereby reduce student-teacher contacts, and helps increase faculty needs by reducing each faculty member's availability for class work.

Complicating the entire picture, observes Mr. Morse, is this fact of life: Once launched, federal programs are sustained by "a growth factor and a staying factor."

Thus, for example, he finds that federal funds for agricultural extension work were rising at the rate of $3 million a year to $60 million last year, regardless of the population shift from a rural to an urban majority.

And last year's federal outlay was $65.6 million for the hardy perennials of vocational education, including vocational agriculture.

The lack of unified policy, he contends, is complicated as such individual agencies as the National Science Foundation, Atomic Energy Commission, National Institutes of Health and National Aeronautics and Space Administration—each with its own mission—launch programs piecemeal.

The lack of coordination, he adds, leads also to several apparently senseless inconsistencies, such as provisions in the Housing and Home Finance Agency legislation and National Defense Education Act that specifically bar use of funds to produce technicians, despite claims being made that they are in critically short supply.

Or denial to the Office of Education of the same flexibility allowed the National Science Foundation under programs to upgrade instruction. "It's this lack of consistency that I find most puzzling," says Mr. Morse.

Or similar programs for which NSF and NIH require matching grants where NASA requires none. Or grants for which AEC requires no matching contributions for equipment to aid teaching of nuclear physics but NSF requires 50 per cent for similar work.

Or NDEA matching grants to states to improve science and language instruction, which often are used by only the wealthier districts in wealthier states because of the matching requirements.

One attempt to bring in some order resulted in agreement by NSF, NIH and AEC—after years of experimenting with varying approaches—to pay institutions a flat fee of $2,500 for each holder of a federal fellowship they enrolled.

Then along came NASA to disrupt the situation by

adopting a policy of negotiating with individual universities payments ranging from \$1,000 to \$4,000 per fellow and averaging \$2,850.

Mr. Morse posed one key policy question before the subcommittee:

"The thing that is of greatest concern to the university world is that in most of these large research programs governmental policy is to pay less than the actual cost of conducting this research . . .

"The concept seems to be that if the universities submit proposals, then they ought to be willing to support part of the cost. This may well be. This is a basic decision but one which I think must be faced.

"You will note that in everything I have [said] there has been almost exclusive concern with the sciences and engineering. To the extent that the universities are doing this in the public interest and to the extent that they are having to put their own free, uncommitted funds into this research, to that very extent these large governmental programs are self-feeding this imbalance in the academic disciplines in the university world.

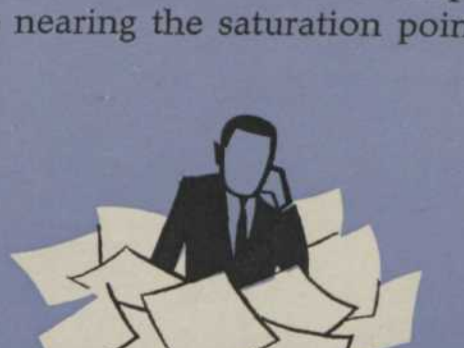
"If, on the other hand, the government's policy were to pay the full cost for what it wants the universities to do—and which, granted, the universities themselves want to do—then it would leave the universities free funds to support . . . academic disciplines and those areas which quite obviously are not now and perhaps never are going to be supported by government programs.

"But if half of a university's free funds have to be siphoned off from its central treasury to help support federal programs of research, then the imbalance gets worse each year."

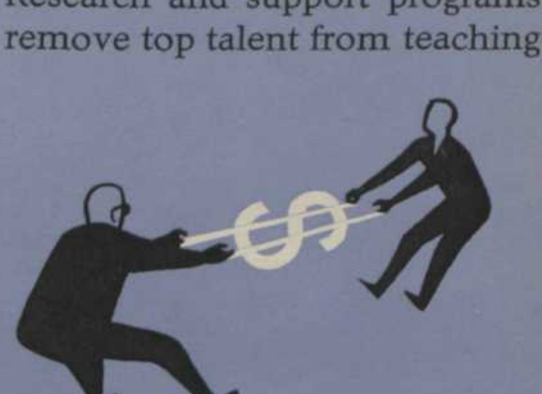
Mr. Morse, who *(continued on page 57)*

Government science fellowships are nearing the saturation point

Research and support programs remove top talent from teaching



It's impossible to keep track of piecemeal activities of agencies



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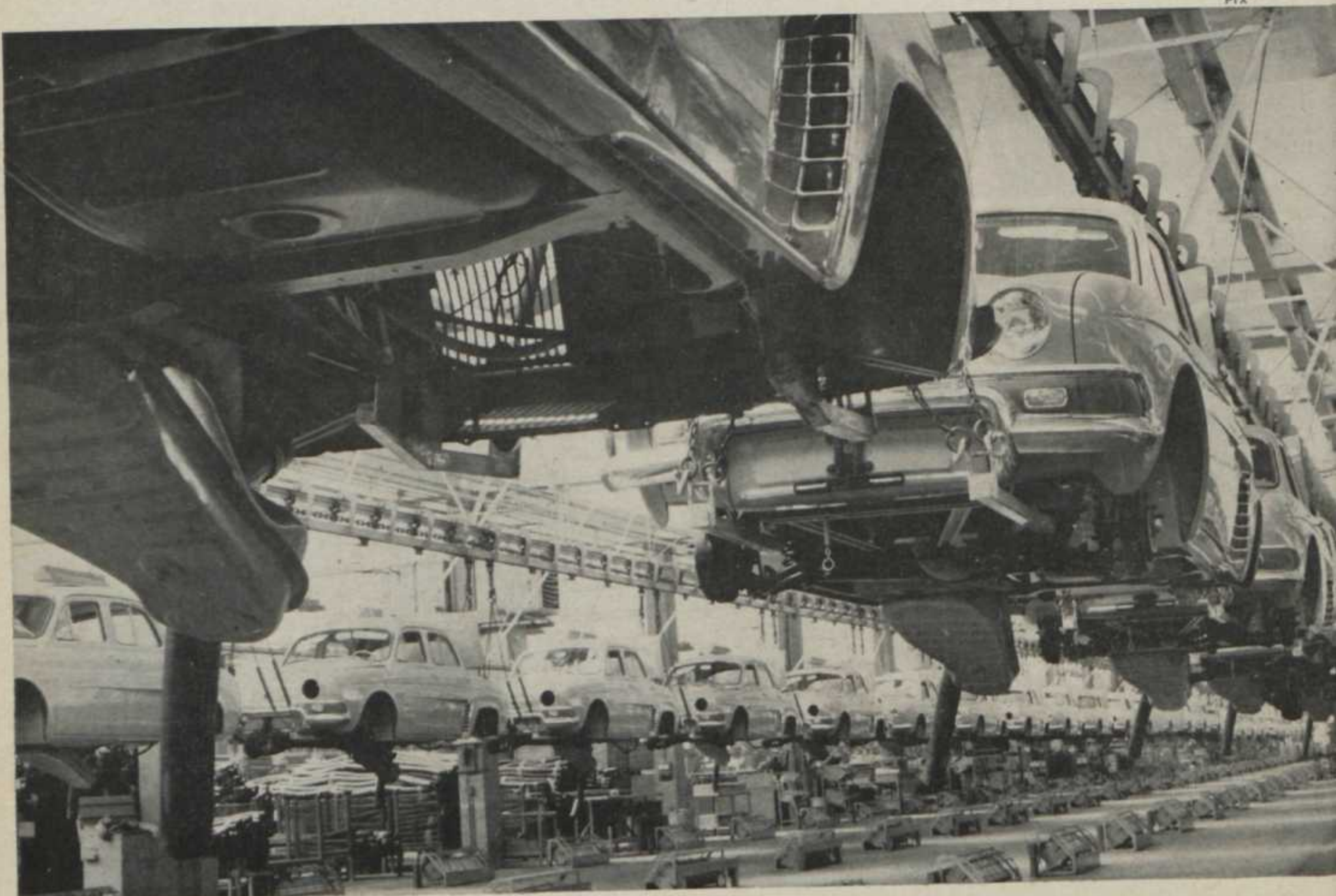
U. S. businessmen will get break from shift in balance of payments

PIX



A BUSINESSMAN READS in his newspaper that the U. S. has made a new grant to a foreign country.

Then he goes to his bank and is told he must pay higher interest on the money he needs to borrow.

At first glance these two events might be considered as unrelated as a crate of oranges and a bale of scrap paper.

But they are related, and the relationship is closer than many Americans know. Each time money leaves the United States there is a direct tie to the way Americans must conduct their business affairs.

An important change in America's world financial position appears to be getting under way.

▶ It can affect the government's willingness to reduce taxes.

▶ It can determine what tariff cuts our government will make, how many imports will be allowed to come into the U. S.

▶ It can help or hurt the export sale of our products.

▶ It can tend to make interest rates higher or lower, make borrowing easier or harder, and thus stimulate or slow U. S. business activity.

When payments going out of the United States exceed payments coming in, a deficit occurs in our balance of payments. The net result can be, and in recent years has been, a subsequent loss of some of the gold that backs the value of our money.

To prevent this, money policies are used to reduce the deficit and stem the loss of gold. These policies affect the price you must pay to borrow money.

The flow of money from this country includes such things as payments for goods and services bought overseas, loans and grants to other countries, and even payments the U. S. government makes to the United Nations.

The balance of payments is the bank statement that shows whether the money coming in from abroad is enough to cover all the outlays abroad.

It is not always related to the movement of gold, because other countries may not call at once for gold to cover the dollars they hold. But, like any debt, a deficit balance must be settled sooner or later.

Looking to the future, what trends are coming up and what might result from these trends that can influence your business affairs?

The recent pattern looks like this: For three years, the U. S. deficit was more than $3.5 billion annually—meaning that payments to foreign countries exceeded payments to us by that much each year. By 1961 the deficit had been reduced to $2.5 billion. Last year there was a further reduction, to about $2 billion.

This year the deficit should be lower.

Still a deficit, admittedly; but the direction of movement now is decidedly in our favor. Some Europeans, in fact, fear that they are heading toward a return to the problem of a decade ago when they were short of dollars to pay for U. S. goods. Though creating a problem for them, this would ease our problems.

For five years there has been widespread worry about our balance of payments problem as almost a permanent condition.

The President recently told Congress: "This nation continues to be concerned about its balance of payments deficit, which, despite its decline, remains a stubborn and troublesome problem."

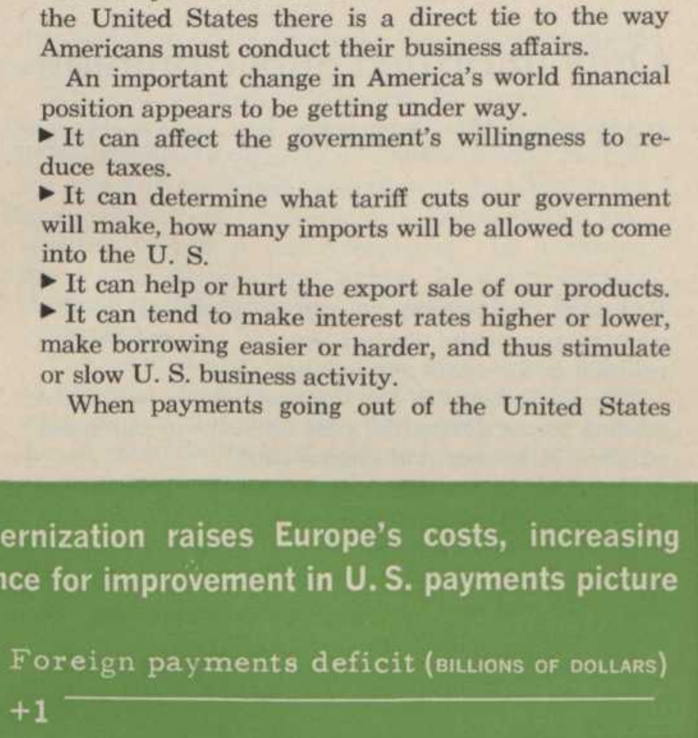
Despite this concern, a change for the better is beginning to appear likely.

Behind the scenes, top government economists who deal with these matters—both in the U. S. and Europe—feel that another reversal in the balance of payments is in the making. This was true before our disagreements with Gen. de Gaulle over America's role in Europe became a public issue. Now the feeling is reinforced. Changes being made in our defense plans will tend to lessen our foreign spending.

Why, then, does the talk in America continue to stress uneasiness about the dollar?

It is chiefly because *(continued on page 44)*

Modernization raises Europe's costs, increasing chance for improvement in U. S. payments picture



VANNEVAR BUSH WARNS: WE'RE MOVING DEEPER

JOE COVELLO–BLACK STAR

Only informed public opinion can check growth in spending

EFFORTS TO INCREASE welfare spending in this country pose twin dangers—loss of our competitive position in the world and inflation.

This is the belief of Dr. Vannevar Bush, one of the guiding forces during the past 40 years in our rapid advance in science and engineering.

Dr. Bush is perhaps best known as a pioneer in computer technology and as director of the Office of Scientific Research and Development in World War II, when he mobilized this country's scientific effort. He played a leading role in the development of the atomic bomb.

Now honorary chairman of the corporation of Massachusetts Institute of Technology and former chairman of the board of Merck & Co., Dr. Bush still regards himself as primarily an engineer. He is a noted inventor and was one of the founders of the Raytheon Company. He served for 17 years as president of the Carnegie Institution.

From his broad background in science and engineering, government, education, and industry, Dr. Bush regards attempts to correct problems by expanding government control as often more harmful to our country than the problems themselves.

In this interview with NATION'S BUSINESS, he tells where he sees the United States heading.

Dr. Bush, in what direction is our political thought moving at the present time?

There is at present a significant conservative trend in this country which may last some years.

Over the long term, however, we have had, ever since the republic was founded, a trend toward centralization, toward a pure democracy, and at times toward a socialistic state.

The makers of the Constitution carefully provided for limiting the central government to the things

INTO WELFARE STATE

that had to be done centrally, that the states could not very well do.

We have gradually decreased the power of the states over their own affairs and centralized power in Washington. Especially we have increased the taxing power of the federal government. In addition we have moved from a republic or a representative government toward a pure democracy, by removing power from the electoral college, by direct election of senators, by initiative and referendum, and by other steps.

The trend toward a socialistic state is not nearly as apparent. We have established central control over wide ranges of industrial effort, but we have not moved significantly in the direction of outright government ownership.

We did not take over the railroads. But we regulated them so severely that now we have a serious problem of how to restore them to health.

Could this have been avoided?

Part of this is inevitable. The complexity of modern life makes some centralization necessary. But we have gone a lot farther and faster than was called for. There are more acts of mine controlled today by some bureaucrat in Washington than when I was a youngster. In business in particular we are regulated severely. Some of this regulation is salutary and necessary. Some of it is gratuitous or even harassing.

Will we keep it up?

Well, Britain moved to the point where the government took over their steel and their railroads and started down the path of complete government ownership and operation of industry. It didn't work very well and the people reacted. We may get that kind of reaction in this country, but we may have to get into trouble first.

How does our growing spending for federal welfare programs fit into the picture?

Let me first define a couple of terms that get confused a great deal in discussions of this sort. One is the term "welfare state" and the other is "socialist state." Actually, these have no necessary relation, one to the other. A welfare state is one that uses the taxing power to give relief to those in distress. Even relief of the poor by a town is part of a welfare state. You can have a welfare state under a democracy or under a dictatorship. It merely indicates a state where there is public activity to relieve poverty and distress by putting burdens on the prosperous. The United States is a welfare state, and so is every other country that I know of. I know of no one who is opposed to the welfare state, carried out with sane moderation. It is just a question of degree.

A socialistic state is a very different concept. In extreme form, it means that every activity in the country is centrally controlled and operated. There is no private enterprise; there are no labor unions. At the top is a government which controls industry and everything else. Every citizen's actions are controlled by an enormous bureaucratic machine.

It is strange that many who consider themselves liberals advocate not only an extensive welfare but also a socialist state, although to my mind the extreme socialist state concept is the exact opposite of liberalism. It inevitably involves almost complete surrender of personal freedom. Of course, we have examples of countries in which a partial socialistic system has worked reasonably well. But it always involves the abandonment of some free enterprise.

How would you classify your own views?

I think, under the old definition, I would be considered a liberal. In other words, I believe in the welfare state carried to a reasonable extent, but not to extremes. And I certainly believe strongly in personal freedom and individual initiative.

I would not want to live in a country where great groups of people were in unavoidable distress through no fault of their own and nobody was doing anything about it. I believe strongly in private philanthropy. I would say let private philanthropy give relief wherever it is possible, but I also know it can't go far enough.

Practically every plan that is advanced for doing something for the unfortunate is, on its face and in an abstract way, a laudable thing. Take, for example, the proposal to extend medical aid to old people. Now who would oppose that? Most certainly I would not in its absolute *(continued on page 66)*

WHAT CHINESE THREAT MEANS TO YOU

Here are the economic implications of Peiping's drive for world power

HOW MENACING is the communist Chinese threat to the United States? What will it mean to your business?

What about the economic threat?

Appraisals of Red China's economic strength run the gamut, depicting China as a colossus capable of decisive action upon world markets or a land mired in desolation and likely to remain so.

Authorities surveyed by NATION'S BUSINESS put the picture in clearer perspective. The consensus of academic, military, and government experts counters many popular notions about China's economic, political and military capabilities.

Authorities agree that:

- The military implications are awesome. If and when China gains atomic capability, Chinese recklessness could touch off total war.
- Politically, the prospects are imponderable. The ideological rift between China and the Soviet Union offers the West both challenges and opportunities.
- Red China will incessantly ballyhoo herself to the world as a great power; her leaders have a mania for recognition as a world power. There will be bombastic, aggressive threats. Despite the propaganda barrage, she will be incapable of mounting any high-pressure trade offensive for five years—and probably 10 years.
- Nevertheless, Red China may occasionally disrupt our overseas trade—principally in agricultural and raw materials.
- Although the zigzags of Peiping planners are unpredictable, it's likely that a larger share of her trade will go to the free world. This reflects both China's need to earn foreign exchange to buy lifesaving grain and the widening rift with the Soviet Union.

Dr. John Hardt of Research Analysis Corporation points out that China's basic delusion is "running for world leadership without adequate means to pay the bill."

He stresses that Americans have a tendency to look upon communist countries as far more powerful and capable in foreign economic affairs than they actually are. In fact, the bloc countries travel a tortuous road to their objectives and snafus often upset their timetables.

An informed Washington official says: "China is not going to collapse economically. She is bottoming out from the disastrous 1958-1962 slump. The prospect is a modest growth rate with ups and downs along the way. The success of agriculture is the key to economic progress and volume of overseas trade, and agriculture is slowly improving. As it improves, light industrial production and exports will increase. Heavy industry will not make significant progress until the 1970's or later."

An indication that China's agricultural picture is improving, due to allowing private livestock and increasing tillage of private plots and some expansion of free markets, according to a U. S. Agriculture Department official, is the increasing livestock ship-

ments to Hong Kong. Another indication is that China is offering foreign aid for the first time since late 1961.

Long-term aid was recently arranged with Laos and Syria; details have not been revealed. Red China committed about $1.5 billion in foreign aid through 1961, with about $410 million going to noncommunist countries.

Extending foreign aid during the early and disastrous stages of her own development is only rational in a political context because it represents a severe strain on her economy. This aid is extended with double-barreled aim: seeking to counter the influence of both the United States and the Soviet Union. Realizing that she can't outbid her two rivals, China often gets a political foothold by offering interest-free loans instead of large sums for aid.

What are Red China's trade prospects? The consensus of authorities surveyed by NATION'S BUSINESS is: short-range outlook pretty bleak, long-range outlook modestly improving.

"Communist China will not be a net exporter of foodstuffs as long as present political dogma is in force," says Dr. David Spaeth of the Spindle Top Research Center.

"But, as she widens lines of trade to the free world, she is going to become a major food broker.

"Chinese government brokers are becoming very active. They are out to make a buck. They're extremely resourceful and can drive a hard bargain. They'll be particularly active with soybeans, and it will be as food barterers that communist China can principally affect U. S. markets."

"I realize this isn't a popular notion," says Roy P. McNair, Far East consultant to the International Bank of Washington, "but I see very little economic capability in communist China that can have a significant effect on international trade in this decade.

"Communist China is a backward agricultural state faced with the stark problem of an ever burgeoning population.

"It's hard to identify an area where China could present severe competition for the American businessman."

"Communist China has a real ceiling on what she can do," says Dr. Hardt. "Her political activity and propaganda suggest she wants to export more, enter the world market more, dump if she could. But what can she do it with?

"What oil development there is in China was primarily developed with Soviet assistance. She must primarily obtain products and equipment from the Soviet Union.

"She is unlikely to export fuels in major proportions in spite of the recent agreement to export coal to Japan.

"Can she compete in industrial items? It hardly seems likely. The Soviets put communist China over a barrel with their pullout of technicians from several hundred large-scale projects.

"Export more rice? To whom? Here she's competing with some pretty experienced Asian sources.

"Iron ore? She is reported to be developing a capability, but probably most will be required for her own industry.

"Communist China has got to earn foreign money

(continued on page 64)

Red China will incessantly ballyhoo herself as a great world power. There will be bombastic and aggressive threats. Despite a propaganda barrage, experts say China will not be capable of mounting a high-pressure trade offensive for five years—probably not for 10

Why socialized health schemes fail

Expert says compulsory systems never solve the basic problems

IF YOU FIND THE NEW expense account red tape a nuisance, you have a clue to the paperwork a federal health scheme would entail.

Objections to compulsory government health plans are based on more important principles than the bother and cost of filling out official forms for a suspicious bureaucracy.

Yet this single facet clearly illustrates the morass of complications which have developed in such programs abroad. If the government feels it requires detailed reporting to judge whether a $5 lunch is legitimate, it obviously won't trust you and your doctor with a hospital bill that runs to hundreds of dollars.

This is not conjecture. Foreign countries with compulsory health plans prove it.

In West Germany, the laws and administrative rules of the state health plans have become a maze about as big and puzzling as U. S. tax law. Week after week the changes arrive to be inserted in the loose-leaf books which must be consulted by employers, doctors, and hospital staffs unless they want to run the risk of endless and often costly hassles with the bureaucracy.

On the average a British doctor will receive three directives every week from the health service informing him of changes in the rules.

A few weeks ago, a British doctor wrote in a Swiss newspaper that about three of his patients a month have to submit to an official examination to check on his work. Isn't this a picture of a suspicious bureaucracy?

The troubles of the British health service are well known. [See "I Quit Socialized Medicine," July 1961 NATION'S BUSINESS]. Less well known in this country are the failures in other foreign programs.

The oldest schemes are in West Germany and Austria, and their problems have become chronic and ever more awkward.

Compulsory health programs, wherever they operate, always result in overcrowded waiting rooms and long waiting lists for admissions to hospitals. Both

JAY LEVITON

Dr. Schoeck, health plan authority, examines maze of rules for German system

conditions reduce the chance of early diagnosis of truly serious ailments—often billed as the most important aspect of government programs.

Furthermore, when the ailment is diagnosed, the patient has no choice about how it will be treated.

Consider this case: A man entitled to government medical care has an ailment for which medicine knows two remedies. One is a shortcut and involves a somewhat risky and painful operation, but costs less than the other method. The other is a conservative, slow and safe treatment, costing much more over a long period.

This man might prefer the second method. But it is not for him to decide.

Under the West German compulsory health insurance law, court decisions support authorities who claim a right to decree whatever medical care yields the quickest cure for the least cost. Failure to submit can mean forfeiting all the government medical care the patient thought he was entitled to because of the compulsory contributions the state had taken out of his wages, perhaps for decades.

No compulsory health plan, however old or costly, has yet managed to compensate its doctors, nurses, hospitals and other suppliers of medical care at rates considered fair by those who care for patients.

Unless a patient forfeits his government medical care, for which he was taxed, and buys care privately, he can expect to be looked upon as an exploiter of underpaid labor by (continued on page 94)

This article summarizes results of more than 20 years of intensive study of government health plans abroad by Dr. Helmut Schoeck, the author. A native of Austria, Dr. Schoeck has had first-hand experience with government health programs in that country and West Germany, and has closely analyzed developments in those and other countries. Now an associate professor in the Department of Sociology and Anthropology at Emory University in Atlanta, Ga., Dr. Schoeck is the author of "Financing Medical Care" and articles in this field.

A LOOK AHEAD by the staff of the

Tax cut found illusory
(Taxes)

Exporters to get guarantees
(Foreign trade)

New labor decisions due
(Labor)

Federal loans to house the aged rise rapidly

fiscal year	total loan funds
1964	$295 million*
1963	170 million*
1962	80 million
1961	20 million

*proposed

AGRICULTURE

The Administration's recommendations for agricultural legislation are more limited this year.

President Kennedy's farm message deals primarily with three commodities. He wants to enable cotton producers to increase 1963 plantings up to 20 per cent if they are willing to sell their cotton for export at the lower world price and to make payments to domestic textile mills to offset their competitive disadvantage with lower-cost imports.

The President said it is imperative to enact a new dairy program that would provide substantial benefits through payments and market prices to those who voluntarily reduce marketings.

As to feed grains, he recommended another voluntary program for 1964 with authority for the Secretary of Agriculture to make adjustments between the 1962 and 1963 provisions he considers necessary.

The President's message called for expansion of the food stamp, food for peace, and rural housing programs.

CONSTRUCTION

Congress will be facing heavy pressures for expansion of the federal program of loans for housing for the elderly.

Under this program government money goes to cooperatives, nonprofit groups and governmental agencies to put up rental units for the elderly.

Another $170 million in loan funds is called for in the Administration's budget. (Chart above shows totals so far.)

Theory for expansion is that it will help many of the elderly.

But the facts are: Only about 26,500 elderly families could be housed in the units which $295 million could build (at current costs of about $11,200 per unit), while there are 6.2 million families (median income $2,897) headed by the elderly (over 65 years) in the United States.

If all elderly families got the benefits planned for the 26,500, this program's price tag would be $70 billion.

CREDIT & FINANCE

The House Banking and Currency Committee may consider well over 100 bills which have been placed on its docket so far.

Bills dealing with housing and savings and loans make up the largest portion.

The most unusual would provide for a one-year moratorium on FHA-insured and VA-guaranteed mortgage payments, with the government assuming payments for mortgagors in economically depressed areas who are unemployed and unable to meet payments.

There is no administration package of finance legislation based on reports of presidential study committees, and indications that there will be none.

FOREIGN TRADE

Changes in the export insurance and guarantee program carried out through the Foreign Credit Insurance Association, commercial banks, and the Export-Import Bank make the assistance now available to American exporters equal to that of their foreign competitors.

The Foreign Credit Insurance Association will now issue short and medium-term policies to cover political risks only. Procedures are similar to those for the comprehensive policy, and the political risks covered are identical to those covered by the comprehensive policy.

Since currency inconvertibility and other political risks are the major hazards in credit sales abroad, rates for separate political risk policies are from two thirds to three fourths of those for comprehensive insurance.

In addition, the Export-Import Bank now offers for the first time guarantees of payment for services, and for equipment on lease, consignment, or exhibit abroad. Eligible contracts include those for architectural services, design, engineering studies, economic surveys.

GOVERNMENT SPENDING

Although the federal payroll now totals $1 billion per month, President Kennedy proposes to raise the

number of government personnel to unprecedented heights.

As of June 30, 1961, there were 2,407,029 civilian employes on the federal rolls. One year later there were 77,625 more. The 1964 budget indicates another increase of 49,387 by June 30 of this year, and another 36,492 on board by June 30 of 1964.

If these increases are realized, it will mean that on June 30, 1964, the government will have 2,570,533 civilian employes on the payroll—163,504 more than on the same day in 1961.

LABOR

By June the Supreme Court is expected to decide two major cases that will affect the course of voluntary unionism and state right-to-work laws. Both involve the Taft-Hartley Act and the agency shop.

The agency shop is a device to evade state statutes protecting the right of an employe to refrain from joining a union or supporting a labor organization. It does not require a workman to join a union, but compels him to pay the equivalent of union dues, initiation fees, and assessments to the union in order to hold his job.

One case stems from the refusal of General Motors Corporation to sign an agency-shop contract covering employes in Indiana. It contends that the Taft-Hartley Act does not permit the agency shop, and the U. S. Court of Appeals in Cincinnati agrees. The National Labor Relations Board disagrees.

The second stems from a refusal of several food store employes in Miami to permit the company to deduct union support money from their paychecks as a result of an agency-shop agreement with the union. The state Supreme Court upheld the employes. The union now asks the U. S. Supreme Court to find that national labor policy does not outlaw the agency shop.

MARKETING

People's buying intentions this year and their confidence in the economy look good.

Market analysts report a surge in the number of families that can afford higher priced goods. A quarter of U. S. households—15 million in all—now have annual incomes exceeding $7,000. And nine million households are grossing better than $10,000 yearly.

"In spite of the bargain-basement atmosphere that has swept the country," says one source, "the potential for goods at the top of the line is vastly better than ever before."

Thus, fashion, high style, better priced goods should make a good showing.

Although retail leaders caution about such problems as expense control and increased government regulation, these will be secondary to the task of doing a better marketing job.

NATURAL RESOURCES

An avalanche of bills introduced in Congress would materially influence management decisions in natural resource industries.

Congress is expected to consider establishment of commissions to develop plans for the major river basins of the nation.

Other basic questions will be who should be doing water research and what the federal role in this field should be.

One of the principal proposals for electric power will be the Department of Interior's plan for constructing an extra-high voltage transmission line from the Pacific Northwest to the Pacific Southwest. Competing will be a somewhat similar plan, involving no federal funds, offered by a group of investor-owned West Coast utilities.

Also expected are proposals to revise the federal public land and mining laws.

Recreation will be a big issue in the House and Senate Interior Committees, involving in part wilderness legislation and establishment of a federal Land Conservation Fund to be used to acquire more land for federal and state "recreation" development. These legislative proposals involve basic principles which will influence the outcome of scores of present and future proposals for specific federal land and water development programs.

TAXATION

Congressional hearings have brought to light instances where the benefits of President Kennedy's tax program would be strictly illusory.

In fact, it was clearly brought out that many taxpayers would be paying more instead of less taxes, especially during the first year or two.

Much of this is accounted for by the five per cent floor under itemized individual deductions. This hits every taxpayer who itemizes his deductions.

The elimination or alteration of certain existing sections of the law, such as the four per cent—$50 dividend credit and exclusion—strikes at the sources of investment capital. This is the money that creates jobs.

TRANSPORTATION

Los Angeles has now joined San Francisco in demonstrating the willingness and ability to find local solutions to local transit problems. Commitments have been secured for marketing a low-interest revenue bond issue of $649 million which will cost the individual taxpayer 14 to 19 cents per month. Fare-box revenues will underwrite the remainder of the cost of a 58-mile rapid transit line.

Approval by the voters in the San Francisco Bay Area transit district of a $792 million general obligation bond issue to finance a modern mass transit system was reported in NATION'S BUSINESS for January.

In congressional hearings last year, proponents of federal subsidies argued that communities are unable or unwilling to finance needed mass transit facilities. Both arguments have been exploded in Los Angeles and in San Francisco where voters approved the bond issue which assesses the average homeowner a maximum of $27 a year at the height of the program.

The measure was approved by more than 60 per cent of the voters in the district.

This, plus progress elsewhere, shows that areas with transit problems should press for local solutions rather than wait for a dubious federal program.

EUROPE'S THREAT

continued from page 35

the problem, though improving, is not solved. Because it is not, we are asking that other countries make a stronger effort in paying their share of the cost of foreign aid, free world defense, United Nations costs, and other expenses.

Europeans, to avoid picking up too much of the tab for these costs, have understated their prosperity during the past several years, and are continuing to do so. Now the U. S. is forced to stress the dark side of its accounts.

So the truth about the balance of payments has to be sought below the surface of public statements.

The surprise factors

Let's look first at the reasoning of those who say that the shortage is going to shift from America back to Europe.

It begins with the fact that Europe's wages and prices have zoomed in the past few years. (See "World Business: How It Affects You," February NATION'S BUSINESS).

U. S. tourists have noticed this and wondered whether it is only the outsider who is being charged more. But any visitor who takes the time to stroll through side streets off the tourist route, or to visit small towns where sightseers seldom go, finds that the natives, too, are getting a dose of inflation, which invariably affects the ability to compete in the export-import trade.

Some of this has not yet shown up in statistics, but firsthand observation has uncovered startling increases that will figure in government reports by mid-1963.

In Italy, where prices were the lowest in the Common Market until a year ago, some quite ordinary men's shirts—similar to our $4.50 models—cost $6 or $7. Shoes no better than run-of-the-mill have price tags of $8 or $10.

In one consumer goods line after another, the same pattern is appearing: prices as high or nearly as high as the American level—for goods made with lower-cost labor.

Note that Europe's greatest price advances seem to be in those lines that were supposed to provide the most fearsome competition for U. S. industry, manufactured goods made by production-line methods.

One clue to the reason is the very thing that was expected to make Europe such a dread competitor: the modernization and expansion of its industrial capacity.

A U. S. government analyst just back from Europe says privately that capital investment has become top-heavy in some lines and that plants may be too modernized for their own good, bringing Europe face-to-face with the danger of an extreme profit squeeze even while prices are continuing to rise.

► Example No. 1: A Renault plant in France is so modern that a U. S. auto maker, marveling at it, said: "We've got quite an auto industry ourselves back in Detroit, but we couldn't afford anything like this."

► Example No. 2: A U. S. drug firm has a subsidiary north of Rome so impressive that it is way ahead of the facilities here in the States. But in an area where labor can still be bought for a fraction of the U. S. cost, this plant is overmechanized. It proved unprofitable and is getting along only because the Italian government has practically subsidized it by contracting for the entire output.

At recent closed-door sessions, European executives from many basic industries—paper and pulp, chemical, nonferrous metals, iron and steel—admitted to being worried about U. S. competition.

Some of this can be laid to business strategy, attempts by businessmen to convince their own governments that they need protection against imports from America.

But much of it is sincere concern. They feel that with their wages going up, their prices are getting out of line with ours. Thought of their doors being opened to U. S. goods, at the very moment of a big export promotion drive by the U. S. government, is terrifying to them.

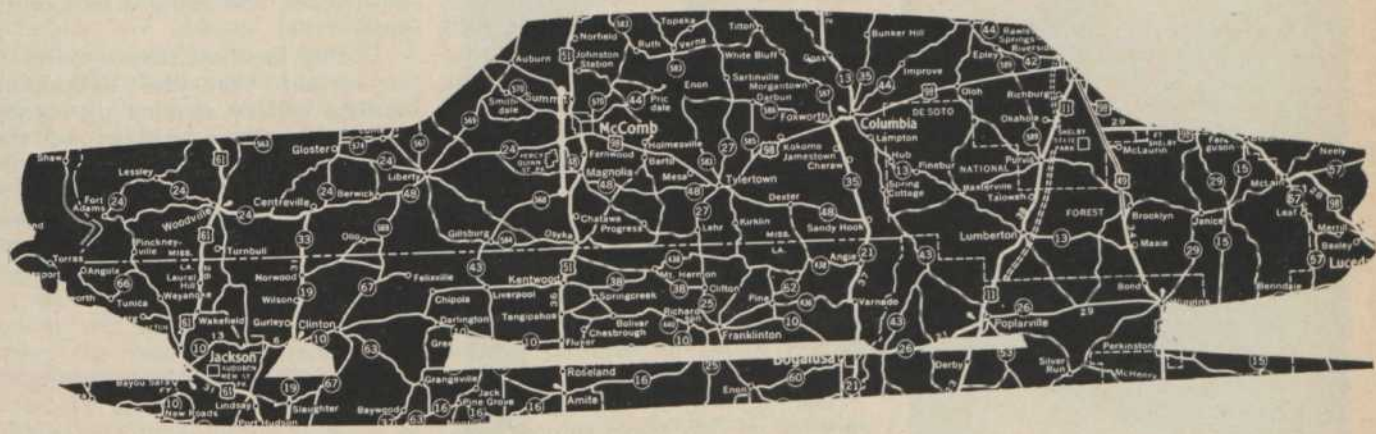
One German chemical man points out: "We're famous as a chemical producing nation, turning out eight per cent of the world's chemical output.

"But the U. S. A. makes 42 per cent. Even a tiny increase in America's share of the world market could cut away a third of our total chemical business."

At this point, a subtle underlying factor complicates the whole picture: Raw material prices in Europe tend to be down somewhat. This normally would seem to be a good thing, counterbalancing the higher wages. But in a time of tightening competition, Europe's manufacturers worry that the lower material costs will trigger a series of price declines, leading to cutthroat price war.

The usual business solution of making up for lower prices with higher volume is not easy in Europe because higher volume involves finding more workers in a tight labor market. And it involves building more plants in an area where capital

THE DEPENDABLES FROM DODGE!



GIVES ANY TERRITORY

A THRIFTY GOING OVER

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EUROPE'S THREAT

continued

investment may already be top-heavy.

So Europeans fear the prospect of having to sell their goods for less—both to the U. S. and to other countries where they compete with the U. S.—but without increasing the volume of their sales. That means earning fewer dollars and other foreign exchange. Unless they cut down on purchases from other nations, they'll soon start to use up their reserves and head toward a repetition of the dollar shortage they had just after the war. Says an anxious Berlin banker: "We seem to be losing again all sense of how to act as required by the balance of payments."

The best way to get a good perspective on this whole subject is to see it as a recurring cycle in which one nation after another forgets how to be competitive, then suddenly is jolted into alertness by the reminder that there is such a thing as competition.

It happened to the U. S. in the mid-1950's. After having things all our own way in the postwar years, we were shocked to find that Europe could take markets away from us.

Now Europe has had several years of supreme confidence. It has let labor demands have free rein; it has allowed facilities to become fancier than necessary. Suddenly European businessmen are facing the fact of competition from an old familiar quarter: the U. S. A. The overwhelming might of U. S. industry is being realized and respected again.

Their loss—whose gain?

One curious part of the present picture is the fact that several countries of Europe have already begun to lose money reserves—that is, to spend abroad more than they earn—even though the U. S. has not made a comparable gain.

But the net spending of one group of nations must go into the pockets of other nations; so where are the recent disbursements of Germany, the Low Countries, and England, not to mention substantial losses by Japan, being reflected? One answer seems to be that the backward countries are absorbing funds from most of the industrial nations.

Foreign aid is a considerable drain on the U. S., Europe and Japan, even though little of the money is an outright gift any longer. Loans and even commercial investments in the underdeveloped world are an outflow of money until such time as they start to pay off. As many a businessman knows from his own experience, even the most lucrative investment can strain the pocketbook and cause a temporary cash crisis.

During the next decade or so it is certain that the developing nations will be soaking up money from the advanced part of the world, and not yet be able to start repaying in a major way. This money must come from somewhere.

If the U. S. gets to the point where its international accounts are nearly in balance—not to mention a surplus—it will mean that Europe will have a deficit. The burden of foreign aid and free world defense will have shifted from the U. S. to Europe. Since Europe couldn't afford to carry this for more than a few years, even if it were willing to, the subject is a problem of the whole western world.

There can never be an end to the problem, not as long as each free world country has to worry about the fate of the whole alliance. The best hope is that the balance of payments will fluctuate in a narrow range, so that a nation's deficits never run too many years without being offset by a series of surpluses.

Cure before crisis

The world's top financial thinkers tend to believe that a full-scale

Is Red China an economic dragon, or a paper tiger? Sinologists give their answers in article on **page 38**

balance of payments crisis will be averted. Because now there is a new level of cooperation between the U. S. and most of Europe on money matters.

Top people from all these countries meet and try to anticipate the problems and fend them off before they become massive. Even now, meetings are planned for 1963 to coordinate growth rates, credit policies and disbursement of aid money. Most of the men who will attend them are at least semiconfident that they can adjust the delicate mechanisms of each country's policies so as to keep the money flow from turning into panic.

The nature of these adjustments is predictable. Averting an emergency will mean doing, in a mild way, the very things that would have to be done forcefully in a crisis. If the U. S. sees that Europe really is falling into a position of disadvantage, then gradually and reluctantly it will be forced to ease up on the demands we have been pressing hardest in the past few years. Here are some of the practical ways this will be reflected in America:

▶ The President can quietly assent to keep a large part of the aid burden on our shoulders, not insist with so much vigor that Europe take over a bigger share.

▶ He will have one more argument in urging Congress to cut U. S. taxes, feeling more confident that a little more inflation will not cause a run on the dollar.

▶ He and his tariff czar, Christian Herter, can be somewhat more liberal with tariff cuts that permit foreign goods to enter here, a shade less aggressive about fighting for U. S. entry into foreign markets.

▶ Interest rates will stay low. The Federal Reserve Board's inclination to tighten credit policies will be held in check.

Businessmen who are affected by any of these four areas of government policy—and few are not—will do well to watch the balance of payments trends during 1963.

If, month after month, they begin to show that the U. S. deficit is easing and that Britain, Germany, Italy, and their neighbors are showing red ink in their foreign accounts, these figures will be of more than ordinary interest. In that case, however much it may be denied in public statements, the possibility of moves along the lines indicated above will become reality.

CHARLES A. CERAMI


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OPERATOR

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PERSONAL OUTLOOK

Tax deductions for investors

When you review your tax-saving opportunities here are possibilities regarding investment expenses.

Internal Revenue Service says deductions include:

Interest charged on margin.

Investment counsel and legal fees.

Cost of investment advisory services. For example—newspapers, periodicals, newsletters, specialized reports that help keep you up to date on investments.

Custodian fees charged by banks or brokers for safekeeping of securities.

Management fees for administering portfolio; particularly applicable to trusts.

Rental on safe deposit box, but only if it holds stocks, bonds, other papers pertinent to income-producing property.

Not deductible if it holds only personal articles such as jewelry, heirlooms, art objects, sentimental trinkets.

Ways to win the battle of the bulge

Medical experts report approximately 90 per cent of overweight reduction comes from dieting, but they consider exercise an "extremely important adjunct."

If you're trying to streamline your waistline, what exercises burn up the most calories?

Big three, according to a new Air Force survey, are running, rowing and the t-w-i-s-t.

Average size man will use 1,240 calories an hour with these efforts.

Best adapted to most overweight persons, especially those over 40, are walking, calisthenics, golf, swimming. Exercise should be taken regularly and in considerable amounts, not spasmodically with violent exertions.

Survey shows these average expenditures of calories an hour:

Sitting at rest, 15; writing, 20; walking slowly, 115; cycling, 180-300; sawing wood, 420; swimming, 500; walking very fast, 565; climbing, 400-900; golf, 710.

Thinking, 7-8.

If you don't like a certain physical effort and get provoked about it, you'll probably burn up bonus calories.

Many-splendored attraction in nation's capital

Planning to visit Washington this year?

If so, you might enjoy an exhibit few of the 16 million annual visitors know about.

The Pentagon houses a superb art collection; also displays of military lore.

Open to public 7 a.m. to 6 p.m.

Receptionists at mall and river entrances are skilled at giving directions.

Extensive art collection reflects mood of World War II both at home and on fighting fronts, includes scenes of:

Canteens, KP, flying the hump, action in the North Atlantic, Idle Hour Park in New Phoenix City, Alabama.

Artists include Tom Lea, Paul Sample, Reginald Marsh, Peter Hurd, Aaron Bohrod.

Army display features battle streamers from expeditions and wars; medals; artillery and armor battle flags; General Pershing's four-star flag; large photos of World War I, World War II, Korean combat.

Navy shows several ship models, including

its first aircraft, guided missile frigate, USS Constellation.

Air Force offers showcase teeming with two dozen aircraft and a dozen missile models; also vivid paintings.

Instant help for travelers

Whether you're a veteran or first-time visitor to Europe there's a new booklet that puts a fund of useful information at your fingertips.

Compressed into 28 pages are everyday facts to make touring, shopping, dining, conversing much easier.

Features are:

Simplified currency conversions; quick comparative clothing sizes, measures, weights; average monthly temperatures; suggested packing list for summer and winter.

Also:

Concise and knowledgeable list of sightseeing; handy directory on how to order meals and beverages in seven languages.

"Europe Fact File" is available from your travel agent.

Vacation spot undiscovered by American tourists

If you're among the million Americans who'll visit Europe this year, you could try an unspoiled place rarely mentioned in travel guides.

Scilly Isles offer combination of King Arthur atmosphere and best climate in Britain.

The Scillies, located 60 miles from western tip of Britain, enjoy balmy April-October weather.

Warmed by the Gulf Stream, isles are dotted with palm, magnolia, fern trees. Thousands of tons of flowers are grown for London markets.

Other features are dozens of secluded beaches; golf; tennis; town crier who takes place of nonexistent newspaper in the single town.

Largest isle—St. Mary's—has three hotels. On Tresco there's a modern two-year-old hotel. Hotels charge about $50 a week, all meals included. Air service from London is expected this year. Now possible to reach from western tip of Britain in half an hour by air; or in three hours by boat.

Small pamphlet helpful for big city visit

If your business schedule takes you to New York City during the world's fair, travel officials advise advance planning for hotel-motel reservations.

More than 70 million people are expected to visit the fair and strain lodging facilities.

The city has established a World's Fair Housing Bureau to serve as clearing house for information and reservations.

It has signed agreements with 350 hotels and motels within 50 miles of the city.

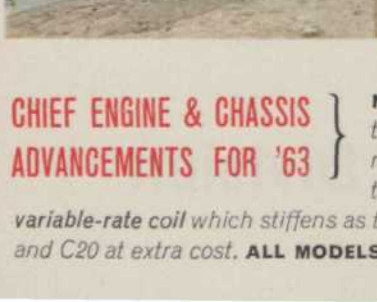
Important feature of the agreement is that participating hotels-motels will stabilize prices during fair at regular rates in effect on January 1 each year.

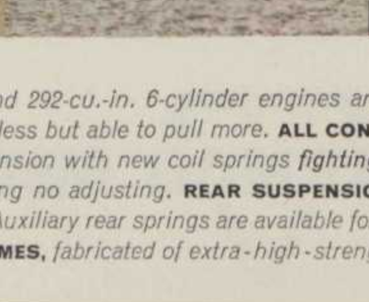
Fair dates are April 22-October 18, 1964; April 21-October 17, 1965.

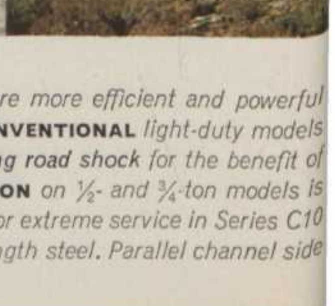
You'll find the WFHB's new pamphlet providing details on the 350 hotels-motels useful whether you're planning a trip soon or during fair time. Address: 30 Rockefeller Plaza, New York 20, N. Y.

This is why '63 Chevrolet Trucks

THEY HANDLED THIS KIND OF PUNISHMENT! These are the trucks that showed how tough they are on the toughest run under the sun—Mexico's Baja *(bah'hah)* Run—over terrain that punished new engines, frames, suspension systems, all components . . . harder than you ever will.







CHIEF ENGINE & CHASSIS ADVANCEMENTS FOR '63

NEW HIGH TORQUE *230-cu.-in. and 292-cu.-in. 6-cylinder engines are more efficient and powerful than their predecessors, weighing less but able to pull more.* **ALL CONVENTIONAL** *light-duty models now have independent front suspension with new coil springs* ***fighting road shock*** *for the benefit of truck, load and driver, but requiring no adjusting.* **REAR SUSPENSION** *on ½- and ¾-ton models is* ***variable-rate coil*** *which stiffens as the load increases and vice versa. Auxiliary rear springs are available for extreme service in Series C10 and C20 at extra cost.* **ALL MODELS NOW HAVE LADDER-TYPE FRAMES,** *fabricated of extra-high-strength steel. Parallel channel side*

are called the "New Reliables"

THEY CAN HANDLE YOUR KIND OF WORK! You can be sure 1963 Chevrolet trucks are the strongest we've ever built . . . built to do the work you buy them for reliably for years at low operating expense with just normal care and attention. Chevrolet Division of General Motors, Detroit 2, Michigan.

rails simplify special body installation. **SOLID FRONT AXLE AND VARIABLE-RATE SPRINGS** *all around are now standard on all medium- and heavy-duty models. You get more spring action when empty or loaded light for a better ride; stiff spring action when loaded heavy for greater stability. Across the fenders, width is* **UP TO 7 INCHES NARROWER** *on conventional medium- and heavy-duty units. You can see* **better, maneuver easier** *in tight quarters.*

CHEVROLET

QUALITY TRUCKS ALWAYS COST LESS

Now she keeps her lunch fresh...

and he has coffee when he wants it!

ANNOUNCING: new General Electric Refreshment Center

Here's 3-way convenience for your office! Lunches stay fresh, soft drinks cold in the Refreshment Center's big refrigerator (50% larger than in compartment water coolers). You get hot water for coffee, tea, or soup any time. Ice-cold water too. Could there be a better water cooler for your office?

Choose bottle or pressure Refreshment Centers. Both are warranted. Just call your General Electric water cooler supplier for full details. Or write us. You'll be glad you did. (So will everyone else in your office.) Commercial Equipment Dept., Chicago Heights, Illinois. 761-27

Progress Is Our Most Important Product

GENERAL ELECTRIC

EDUCATION

continued from page 33

supports much of the Administration's program, has recently joined the American Council on Education, which represents 1,000 institutions of higher education and 175 national, regional, and state education organizations.

In the Brookings study, the author calls for more general programs of broad support to colleges and universities to counter the imbalance.

"It is . . . easier [for institutions] to oppose federal programs in the abstract or on general principles than to refuse to participate in a specific program which—despite certain drawbacks, deficiencies, and controls—offers immediate advantages to an institution."

He adds: "As these remarks may suggest, we are not inclined to dismiss the danger of federal control as a myth designed simply to serve the interests of local and sectional forces. It is and will remain a continuing danger to the independence of academic institutions, and must be guarded against more vigilantly as the role of the federal government in higher education grows."

"A more evident danger," he says at another point, "which is the more difficult to withstand as the expansion of educational institutions and of our society normally takes the same course, is the growth of bureaucracy and its tendency to change universities from academic to impersonal or even business institutions.

"Often, as new government programs age, they are run less by men and more by rules, less by personal and more by formal communications, less by the individual examination of individual situations and more by general regulations. This is control not by dictation but by red tape, which can frustrate and devitalize such intellectual effort."

Mobilization of the nation's academic community in the national interest, he says, could lead to essential nationalization of the campus. Thus arises the need to balance two questions:

1. "Does not a noble conception of the national interest embrace the interest of man?"

2. "But do scholars best serve the nation by forsaking their laboratory and their study for mechanical and political arts? Does not a bricklayer serve his nation by laying bricks well, and a scholar by good scholarship?" END

New findings will improve your decisions

Research on behavior develops fresh approaches to analyzing problems, raising creativity

To tackle the problem of morale, you have to find what people get out of their jobs—the payoff—then figure their payoff schedule

B. F. SKINNER
Harvard University

MORE PROFITABLE business methods will result from current research in sciences dealing with human behavior.

The research will help you run your company more efficiently, with higher productivity and lower costs. These are vital needs in an era of heightened competition in domestic business and growing competition from abroad.

New information will enable executives to:

- Make better decisions.
- Boost creativity and innovation.
- Weld employes into more productive units.
- Predict consumer desires more accurately and include them more effectively in long-range planning.
- Select and train better managers.

A detailed picture of where current research will lead has not yet come into sharp focus, but authorities in the fields involved—primarily psychology, sociology, and anthropology—are able to describe the outlines.

The key to mushrooming developments in the behavioral sciences is the growing use of computers, which have enabled researchers to analyze volumes of data and to compress the time required for testing theories.

"With the increasing sophistication of electronic and other analytic techniques in this area, we will be able to predict much more accurately the likely capabilities and likely reactions of individuals or groups," says Dr. Herman J. Sander of the Air Force Office of Scientific Research.

Dr. Hollis W. Peter, director of the Foundation for Research on Human Behavior, says:

"The behavioral sciences will do more than they have in describing the complex organizations that turn out profits—corporations. They will find systems which are more effec-

The behavioral sciences will find systems which are more effective in terms of profit success, and tell why businesses succeed or fail

HOLLIS W. PETER
Foundation for Research on Human Behavior

PHOTOS: MASSAR, BENYAS-BLACK STAR

tive in terms of profit success, and tell why some businesses are successful and others are not.

"These sciences will tell people how to change their existing organizations to get more effectiveness. They will also give executives knowledge of how to change themselves, as well as others, to produce a more efficient operation."

Dr. Peter says more dependable qualitative measures of organization effectiveness in terms of human behavior are still about five years distant.

He points out that some companies are already looking into this and are beginning to see bits and pieces of it.

"We'll be measuring the human component just as we now measure financial status by the use of accounting," Dr. Peter explains. "This will produce substantial increases in efficiency and cost reduction. Companies that get there first will have a great competitive advantage. Most corporations are nowhere near tapping the maximum capabilities of their people."

Effect on decisions

What will the behavioral sciences contribute to the crucial function of making decisions? Dr. Charles H. Kepner of the research and consulting firm of Kepner-Tregoe and Associates, Princeton, N.J., believes breakthroughs will come in development of more orderly ways of using information.

"Not computerizing, but finding out more about how people think," he says. "We have to break down into its parts the process everybody uses in thinking through a problem so that we can set up a pattern to follow—a disciplined way of thinking it through.

"The manager never has all the information he wants and, in most cases, the information available is not used efficiently. Most managers act before they really understand what the problem is. They go on a hunch and then look for data to back it up.

"We have to recognize the problem first, then set its limits, and finally move on through testing possible causes to find the actual one."

Prof. Raymond A. Bauer of the Harvard School of Business Administration makes an additional point:

"There has been little study on how decisions actually are made in business. Much of what has been done is merely somebody's idea of how decisions should be made."

Professor Bauer cites the new Bayesian statistical decision theory as an advance which will have a heavy impact on both the behavioral sciences and business management the next few years.

Named after an Eighteenth Century English cleric who dabbled in mathematics, this approach to decison-making was developed by a Harvard professor, Robert Schlaifer.

Bayesian analysis provides a means of placing a dollar value on the information needed in making a particular decision. Instead of simply a go or no-go decision, the businessman will be able to determine precisely whether he would get his money's worth from an effort to get additional information before deciding.

It would place a practical limit, for example, on how large a study should be made.

Dr. Morris J. Gottlieb, of Arthur

YOUR DECISIONS

continued

D. Little, Inc., explains the method's importance this way:

"What this does is to take into account systematically the degree of uncertainty in the decision-maker's mind. What a person is willing to pay for complete information depends on how uncertain he is and how much hinges on the result of his action. For partial information he will pay a fraction of this amount according to how much this reduces his uncertainty.

"How many of us have been baffled by situations where the cost of getting statistically significant information seemed out of all proportion to the value of the information? Bayesian statistics make it possible to cope with such situations in a way which is systematic and in accord with common sense."

Effect on creativity

Important advances in stimulating creativity and innovation are foreseen as researchers probe into the workings of the human mind.

"People are just beginning to dig into this area," Dr. Kepner says. "We've been studying the creative qualities of such people as artists and composers. Now we're starting to study what an ordinary person does when he must innovate to meet certain requirements.

"This will have tremendous impact. It will develop a whole new idea of what creativity is. I believe we can learn to achieve an atmosphere in which creativity will be markedly increased—perhaps doubled or tripled.

"A company which can spot fresh needs for its products more quickly and which can shorten the cycle for developing products will be far ahead of the competition."

Research includes two different approaches. One seeks to find out how similar ideas can be pulled together to produce the idea needed. Another works along the lines of logic, starting with a precise definition of what is needed and working back to discover the various elements which might produce it.

"Creativity is not so much intuitive ability as it is the capability of a man to analyze what he wants to get done and possible ways to do it," Dr. Kepner says.

Looking ahead to see how our growing knowledge of human behavior will help build greater efficiency in the company as a whole, Dr. Milton L. Rock, managing partner of the Philadelphia consulting firm of Edward N. Hay & Associates, predicts:

"We'll have an image of the company in more depth than we have now in our organizational charts. The relationship of various jobs can be visualized in such a way that we will have a clearer picture of how executives are meeting the objectives of the company.

"It's almost like creating new atoms. We know the basic materials —the various jobs and people. We'll be able to put them together in an arrangement which will achieve company goals. Instead of studying the relationship of people to people, we'll study how people and the crucial parts of their jobs relate to the total objective.

Your taxes, interest rates, tariff changes, and other important business factors will be affected by coming shift in the foreign payments picture. For details see, "Europe's Competitive Threat Will Ease," on **page 34**

"This new image of the company, a combination of words and mathematics, will enable us to develop the organization which can best meet competition. By not having either omissions or overlapping in meeting goals, we'll get more efficient management. Executives themselves will have a clearer picture of how their job contributes to the total company effort."

Robert L. Kahn, professor of psychology at the University of Michigan, adds:

"In a few years, we'll be able to provide a continuing measurement of the loyalty and motivation of the people in a company, just as we now measure its financial situation, inventory, and sales."

A major breakthrough in our knowledge of how to motivate people is likely to grow out of current research on learning. Just as a teacher shapes the behavior of his student, a manager wants to shape the behavior of his people to work efficiently, intelligently, and loyally.

Dr. B. F. Skinner of Harvard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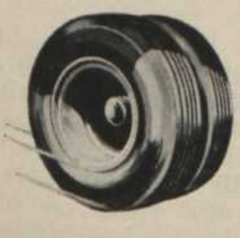

YOUR DECISIONS

continued

University, an originator of the teaching machine, says:

"Take a look at a roomful of women playing bingo. The prospect of being able to keep his people at their jobs with such concentration and enjoyment would make a businessman's mouth water."

It is the "variable ratio" of payoff that keeps the women at the bingo table. The same factor—expecting a payoff from time to time but not knowing when it will come—also motivates the scientist and the explorer in their search for new knowledge.

"To tackle the problem of morale, you have to find out what people get out of their jobs—the payoff—and then calculate what payoff schedule they're on," Dr. Skinner explains.

Psychologists are near the point where they will be able to analyze a situation and make fairly specific recommendations on how to schedule these rewards to achieve peak morale. In business they would include various forms of recognition, pay, and promotion.

Better forecasting

One of the most important contributions which behavioral scientists have made to the businessman has been to increase his understanding of how the consumer thinks and behaves.

As disposable income has grown, the scientists have developed reliable surveys to indicate how and why people spend their money. Since buying patterns are not necessarily related to economic conditions, this information is very significant in forecasting business cycles.

"We will see in the future much greater understanding of population groups in terms of what and why people buy, how they vote, how they feel about particular industries and business itself," Dr. Peter predicts.

This growing knowledge will make possible much more accurate economic forecasting and a better understanding of economics, according to Dr. John B. Lansing of the University of Michigan Survey Research Center.

"It will be increasingly possible to take more information into account in constructing econometric models of the whole economy, figuring factors for consumer behavior into the models," he says.

Research now going on may provide valuable new tools in select-

ing executives and other employes. Two psychiatrists, Dr. Sanford I. Cohen and Dr. Albert J. Silverman of the Duke University Medical Center, are trying to establish patterns of relationship between man's physical and emotional reactions.

With electronic equipment they can take a number of physiological measurements simultaneously, put them on tape, and convert them almost immediately to a measurement system. These include brain waves, heart beat, respiration, change in the skin's electrical resistance, and changes in size of blood vessels in the arms and legs. Measurements are made while the subjects are undergoing simulated situations, such as stress.

As related patterns emerge from this research, it may be possible to gauge executive potential by wiring up a candidate and putting him through situations which he would encounter as a top manager.

Despite the dramatic developments which the future promises, it may be some time before the behavioral scientist's road through the world of business becomes much smoother than it has been to date. Authorities generally agree that much more knowledge in the field exists now than businessmen have accepted and put to use.

"Behavioral scientists have made a great deal more progress and learned many more things than anyone knows how to apply in business," Professor Kahn says. "There is no profession comparable to that of the engineer which can work out applications of research findings. We have consulting firms and some companies with people who understand the behavioral sciences, but the list is not very long."

Dr. Peter summarizes:

"The businessman who continues to run his company without making use of the help which behavioral science can provide is really being soft-headed—not hard-nosed, as he thinks. He's not taking advantage of facts which are available to improve his operation.

"It takes much more discipline to put into use the complex data being developed than it does to go on using inaccurate but convenient ideas of the past." **END**

REPRINTS *of "New Findings Will Improve Your Decisions" may be obtained for 30 cents a copy, $14 per 100, or $120 per 1,000 postpaid from Nation's Business, 1615 H St., N.W., Washington 6, D. C. Please enclose remittance with order.*

continued from page 39

Communist nation is widening trade with the free world, especially Japan

some way, but there aren't very many alternatives to earn it. Her basic industries are designed for capital goods and military structure and this doesn't favor an export capability. In fact, it dries up her export capability."

Not generally appreciated is the fact that China's trade is edging into a new pattern—gradually moving toward more trade with the free world and away from the communist bloc. Free world nations will comprise her major trading partners this year.

Peiping now shuns talking about trade and trade statistics. However, data obtained from free world and other bloc countries permit this fairly accurate estimate:

A decrease in total foreign trade since 1959; bloc countries' percentage of the total declining; consequent larger share going to free world reflects heavy grain purchases being made in Canada, Australia and other countries; volume of trade now advancing slowly from 1961 levels; industrial equipment buying will be extremely selective and curtailed by scarcity of goods for export; less reluctance to order vital industrial equipment from industrialized countries of the free world including Japan.

The pattern of her trade this year, as in the past two years, will be dominated by the need to import grain and the problem of paying for it.

Although her annual gross grain production is up eight to 10 per cent, the regime must continue buying substantial quantities from free world suppliers.

Three consecutive poor crop years made it essential to buy grain. The Soviet Union and her Eastern European satellites, due to their own hard times and the ideological rift, couldn't or wouldn't supply the quantities needed. So China bought where she could.

About six million tons were ordered from free world nations in 1961, and a similar amount in 1962, with deliveries extending into this year.

Red China is able to pay for this grain only by slashing her purchases of industrial equipment and raw materials. For example, Sino-Soviet trade dropped about 50 per cent between 1960 and 1961 and a similar drop probably occurred between 1961 and 1962.

She now exports extremely little grain and other foodstuffs. An exception is Hong Kong, where exports are approximately back to pre-disaster level. The trade with Hong Kong is the principal means whereby she earns badly needed foreign exchange; a good year means $200 million profit. The only other sizable source of foreign currency is remittances from overseas Chinese.

It is well to remember that, as the trade pattern alters, the resulting strain on China's depleted foreign exchange reserves inhibits the purchases of goods necessary for the development of industry. She has a small balance on hand and is probably paying credits on a hand-to-mouth basis.

The critical factor is whether the agricultural situation can be straightened out enough so the regime can return to the export level comparable to pre-1958 when mainland China was a large food exporter.

Answer vital to U. S.

The answer to this enigma is of special interest to U. S. agricultural producers because the U. S. and China are the world's two largest producers of farm products and both are traditionally major exporters.

A portentous development may be the $500 million Japanese-communist China agreement.

"In itself," an Agriculture Department official says, "the agreement is not initially a big change. The significance is that it's the beginning of a thaw and the first step in furthering of trade relations between the two countries.

"If it indicates a shift in trading orientation from the bloc to the free world, it is indeed of consequence."

The semibarter agreement between a group of Japanese businessmen and Peiping calls for developing long-term, comprehensive trade during an initial five-year period. Goods to be imported by China are rolled steel, chemical fertilizer, agricultural machinery and implements, insecticides. Goods to be exported by China are mainly soybeans, coal, iron ore, and corn.

What is the agreement's impact on American business?

The U. S. and Red China are the world's largest producers of soybeans and this competition has been more intense than for any other product. China avidly seeks to expand sales in Japan where the U. S. began to dominate the market in 1958.

"We sold about $120 million of soybeans to Japan last year," says Dr. Spaeth. "That's about 95 per cent of the market. The agreement will hit American business the hardest on soybeans. Every ton communist China ships to Japan will be at our expense. Also in direct competition will be coal. Any communist Chinese coal that comes in will be at our expense, too."

Mr. McNair says that less West Virginia coal will be bought by Japan during the next several years.

"The Japanese attitude," he says, "is that if they can get coal from communist China, this means a smaller transportation cost than if it has to come from Baltimore. The cheaper coal will affect the price of their steel products and this is important because Japan very rapidly is getting out of the low-cost category."

Red China and Japan have been slowly repairing trading relations since 1960. They broke off trading in 1958 after Peiping attempted to influence Japanese elections. Political overtones are likely to bring tension during the life of the new agreement.

Although China's leaders probably hate to trade with the free world, trade with Japan is a different story. The two are natural trading partners.

One major roadblock to any sudden, prodigious increase in their trade is Japan's fear of offending the U. S. We replaced China as Japan's best market after World War II; at the same time Japan became the best customer of our foodstuffs and raw materials, formerly imported from China. Japan is also a recipient of U. S. loans, credits and military aid.

One economist notes that Japan may use the agreement as a bargaining point with the U. S.

Japan has an adverse balance of payments with the U. S. and must try to earn more from this country or reduce its imports. Reports indicate that Japan is unhappy with U. S. import restrictions. Faced with overproduction and strong com-

petition for world markets, Japan must consider any step to increase exports. And Red China in the long run must find sources of development capital.

The only prospective source at this time is the Soviet Union. But every additional day that the rift widens between the two countries the prospects of receiving Soviet aid decline. Red China now seems to be getting little significant aid from Russia.

Dr. Hardt points out that Red China's relentless world-wide campaign of political subversion and propaganda also serves to hinder economic recovery.

"Communist China," he says, "for either reason of pride or power drive has refused to sacrifice political ambitions for economic benefits. She has cut herself off from the one power that at the present time could alleviate some of her problems.

"Communist China could have come to an understanding with the Soviet Union. Of course, this would have meant knuckling under and being a satellite. Instead, she took the position of competing with the Soviets.

"Now China is vying with the Soviet Union for control or influence in underdeveloped countries in Latin America, Asia, Africa. It's an extremely expensive policy. For political reasons she makes living in this world more and more costly for herself."

Dr. Kurt London, director of the Institute of Sino-Soviet studies at The George Washington University, warns:

China has gone through many times of trouble. A slow, modest recovery can be expected. Although her problems will be with her for decades to come, it would be foolish to forget that China is a populous power with leaders hostile toward the West.

President Kennedy has pointed out that the world would be "far worse off if the Chinese dominated the communist movement, because they believe in war as the means of bringing about the communist world.

"Mr. Khrushchev's means are destruction, but he believes that peaceful coexistence and support of these wars of liberation, small wars, will bring about our defeat.

"So we are better off with the Khrushchev view than we are with the Chinese communist view, quite obviously. But Mr. Khrushchev does not wish us well, unfortunately." **END**

continued from page 37

fundamental form. If old people need medical aid and can't pay for it, I think it sounds great to live in a country where it can be furnished to them.

But you can say much this same thing about everything of this sort that is advanced. It is merely a question of how far you go and what you choose to do. We can't do everything of that sort that anyone proposes without going broke —that's certain.

We have had a great rise in this country of private voluntary insurance against the costs of disease and accident.

Private enterprise is doing this and doing it very well. This development needs encouragement by government, not government competition.

It is a question of balancing how far you can afford to go against what you want to do and limiting over-all welfare spending to what can be properly borne by taxation, without so cramping industry and private initiative that we cannot compete in international competition.

Are we headed in the direction of even more spending for welfare programs?

Certainly we are on the same path today that we have been on for some years. The trend has continued under Democratic and Republican administrations and Democratic and Republican Congresses. But, recently, with the problems of budget balance and gold outflow strongly before us, the pace has slowed down.

Is welfare spending and consequently heavy taxation the only reason that costs increase?

By no means. For one thing we have the very heavy costs of national defense. We have taken on the major task of defending the free world, and the cost is enormous. I believe it will decrease slowly after a time, possibly due to easing of international tensions, but more likely because of increased prosperity of our allies and their willingness to share the burden.

Another reason is this: Along with the trend toward more centralized government, we have had an enormous rise in the power of labor. Now, again, I'd say: This, in abstract, is salutary. I would never want to live in a country where the laboring man was helpless and utterly dependent upon his boss.

But the pendulum has swung too far. It has swung to the point where we have absurd events as a result of the concentration of labor power. We have gravitated to a position where a small group of men, highly organized and with effective means of limiting their numbers and preventing others from exercising their trade, can impose absurd demands, throw thousands of their fellow workers out of jobs, impose severe hardship on the public, all as a result of some really minor grievance, and we do very little about it.

In one way or another, we have to correct this absurdity. We certainly don't want to do it by some form of coercion of the workingman, but it has to be done. The finest way it could occur, of course, would be through higher statesmanship among union leaders. But it will come about only when public opinion forces it. There are signs that public opinion is swinging in the direction of correction. It would swing faster if we did not have occasional incidents of reprehensible acts by business leaders in high places.

Back in the last century when it was practically uncontrolled, business was too powerful and there were widespread abuses of this power. In the '90's public reaction produced all sorts of corrective measures; most of them have proved to be wise moves. One of the wisest things we ever did was to enact the antitrust laws, even though they have been administered in queer ways many times since. I think that no one who has watched objectively for some years could avoid the conclusion that government has sometimes attacked companies, not because they had violated the law, but merely because they were large and because there was assumed to be political advantage in attacking big business. There is evidence that there are places where it is believed that this political advantage exists today, but it is certainly less potent than it used to be.

But the pendulum started swinging the other way early in this century, and now it has swung too far.

Dr. Bush, are these trends likely to wither initiative and industrial inventiveness, the qualities this country needs to meet the challenge of the future?

I don't think you can discourage American businessmen or American technical men merely because the task becomes hard. They just dig in more vigorously when it's tough. But if we carry the welfare state idea far enough, we are going to make it impossible for American business to compete in the world market.

We can't compete if we have severe inflation, and inflation comes about inevitably when you spend money you haven't got. It also can come about if the wage-price spiral goes unchecked. If we cramp industry to the point where it is no longer really profitable, and, at the same time, begin to pass out further benefits from the central government to sections of the population that are in trouble or that merely have great voting power, we can force the value of the dollar down.

We have both dangers. We have the danger today of being forced out of the world market simply because we run the costs up too high, and we run the danger of inflation.

Fortunately, I think the American public is beginning to understand the broad problem to an extent that it did not a few years ago.

But when I say this, I mean that the leaders of thought of the American public are beginning to understand. This does not mean just the people who make speeches or write essays. It means also the chap whose neighbors gather around when he drops into the grocery store in a small town, to chat and get the answers to questions that puzzle them. It means the skilled mechanic who is also a wise individual and so regarded by his fellows.

Our future health and prosperity depend upon understanding by the people. The people generally must grasp more fully than at present the system under which we have operated successfully in the past and under which, refined, we can operate more successfully in the future. The central question is whether this understanding can come in time.

In trying to solve a particular problem through federal intervention, do we run the risk that the whole system we're attempting to improve may be damaged by government control?

Of course we do. For example, federal administration of medical care would restrict the independence and vigor of the medical profession. It would interfere with the free choice of the patient in selecting hospitalization.

Don't interpret this to mean that I think medical practice in this country today is free of faults; it's

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WELFARE STATE

continued

got plenty of them. But one of the finest things we have had in American civilization has been an independent, proud, capable medical profession, handling its affairs with its own code of ethics, and, in general, doing a good job. Let's give that independent organization ample opportunity to cure its own ills and not suddenly set up a czar somewhere to tell them what to do.

Britain's medical profession has been government controlled for quite a while. They have tried very hard to accomplish this without interfering with the essentials of the medical profession. But I don't think they have accomplished it. I think they have regimented their people in connection with medical care. I don't think that is a good thing. I don't think the British like it.

How can we prevent government from moving too far in the direction of central control?

By public opinion. This government moves in the direction that its citizens want it to move. Of course, we all know that public opinion gets distorted, that some parts are highly vocal and some are not. It is almost inevitable that the people who want something are the vocal ones and the people who pay the bills are not.

But as far as government ascertains what strong public opinion is, that's the way it moves. You can't change the trend unless you change the public wishes.

Dr. Bush, what is the federal government's proper role in our economy?

It includes many things, the national defense in all its phases, the regulation of business which involves national natural monopolies, flood control, guarding the public health, management of public finances, and many other things.

But government ought to stay out of anything that can be done better under private initiative. This country has become the most prosperous country in the world not only because of its size and resources, but also because of the free enterprise system. We should not, in seeking minor goals, undermine the system which has made us great. Central government also should stay out of anything that local government could do better, because it is closer to the citizens involved. **END**

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YOU CAN KEEP MORALE HIGH

These suggestions will be useful in increasing employes' will to work

INDICATOR AREA

1. THE COMPANY

2. COMPANY-DIVISION PRACTICES

3. DECISIONS

4. LEADERSHIP

5. GROUP CLIMATE

6. JOB CONDITIONS

7. STATUS

AS AN EXECUTIVE you are potentially a morale-builder or a morale-breaker.

What you do to stay alert to the morale level of your company will influence its state of morale.

Morale is the backbone of a working team. Psychologists say group morale sparks in a member the will to give the best of his talents for the organization.

Morale is defined in different ways by different people. Opinions vary even as to what is normal. But, however difficult morale may be to describe, it is real and steps can be taken to assess it and build it.

It is important that you:

- ▶ Understand what morale is and what influences it.
- ▶ Watch for indicators of high or low morale.
- ▶ Know how to maintain morale at a high level.

To do this, the executive must show his concern for company objectives, display genuine interest in the work of his people and be aware of what accelerates or hampers their effort. Moreover, he must take sound actions when the chips are down.

Concern for good morale is important for several reasons:

First, competition is such that every company needs the ideas, loyalty and enthusiasm of its people, as well as their regular productive output. Only in a climate of reasonably good morale can you obtain these.

Second, and of particular importance in middle management, is the recognition that at any given time there is some waste because of lack of cooperation, misunderstanding, or indecisiveness. In addition to necessary corrective measures, such as organizational changes, better control and coordination, this can be counteracted best by executive leadership to improve morale.

Third, a company is better prepared to meet troubles when morale is high.

Costs and morale

High costs of recruiting and training new managers underscore the importance of molding these people into an enthusiastic, well disciplined group. High morale contributes to this effort.

The condition of morale is not confined to the company. Word gets out. Customers, the community, competitors often are aware of the condition of morale in your company, especially if it is low.

Morale is not contentment that comes with soft management. Low

HIGH MORALE EXISTS WHEN—	LOW MORALE PREVAILS WHEN—
Lines of responsibility and authority are clear; coordination good; line-staff teamwork generally productive; organization structure is flexible; managers can get to right official when necessary	*Authority overlaps; organizational structure is too complex; company has too many layers of review; communication breakdowns are frequent; reorganizations don't add up; committees interfere*
Good rapport exists among managers; agreements are honored; men know where they stand and how they are doing; policies are clearly and quickly communicated; reward system is fair and current	*There's too much paperwork; managers have to beat the system; excessive rivalry exists among the departments; deadlines don't mean a thing; it is hard to get needed information; ideas die on vine*
Decisions are tied in well to policies and plans; managers get chance to participate in decision-making; delegation is adequate; bad decisions are withdrawn when necessary; accountability is clear	*Decisions are too slow, poorly timed; subordinate has little chance to participate in the making of decisions; delegation is meager; decisions unduly influenced by tradition; real issues are evaded*
Staff meetings are well run and produce results; boss keeps subordinates informed of policies and plans affecting them; men know the scope of their responsibilities; boss shows dignity and fairness	*Assignments and orders of boss are unclear; men have to work without knowing policy limitations; boss sets unreasonable deadlines; too many attempts are made at regimentation; standards fall*
Team takes pride in its performance; men will go to bat for each other; professional aims, standards are high; grievances of a member are heard; over-all quality of group output is high-grade	*Too many cliques exist; favoritism is shown some; work output is inadequate; one man dominates the group; bickering is common; there are recurrent rule violations; professional standards are low*
Managers find sufficient challenge in their jobs; abilities of men are utilized well; employes able to express their views; performance standards are realistic; workers get recognition when deserved	*It's difficult to get a job done; ideas put aside too often, too fast; men have to break rules to get action; boredom and restlessness are prevalent; pay scales lag behind the rates in other firms*
Job privileges are modest but good; management is receptive to a man's views; talents are utilized; employes enjoy higher status in community because of their association with the company	*Favored few get recognition; opportunities for redevelopment are restricted; criticisms far exceed compliments; men must look out for themselves; firm has too many dead-end jobs*

KEEP MORALE HIGH

continued

standards and soft-pedaled discipline don't raise morale; they generate confusion. It is not the absence of conflict, good personal adjustment, or even general job satisfaction—though each of these contributes to morale.

Morale can be defined as the total set of attitudes toward your job, management, and the company. It stems largely from the job environment and is a reaction to it. The reaction is reflected in confidence, drive, cooperation, and the will to work.

Among managers morale is reflected in the caliber of working relationships, perseverance toward company objectives, confidence in their boss, persistence in tackling tough problems until they are solved. All this, above and beyond basically good output and teamwork.

Individual and group morale usually are linked. The morale of an engineer is generally symptomatic of the morale of all the company's engineering personnel. That of a secretary is usually symptomatic of the kind of morale which prevails among secretaries throughout the firm. There are exceptions, of course. But the feeling of likes and dislikes, fairness or unfairness, clarity or confusion, support or lack of support usually will cut across both the individual and group and will affect both.

Morale, motivation, and loyalty are interrelated. So are individual ego and group prestige. There is often a visible relationship between individual pride in workmanship and the group's spirit of accomplishment.

While social scientists contend that any correlation of high morale and high productivity is still inconclusive, the weight of evidence is in this direction. The will to work at capacity—the essence of high morale—is tied to individual and group productiveness. Consultant William Whyte has observed that people who want to be productive are likely to be productive; people with high morale have a high motivation to produce. The question is what influences make people want to be productive. The answer is to be found not in any single influence but in many.

Factors influencing morale

Many things influence the morale of supervisors, foremen, and managers. These factors fall into four broad categories:

- Organizational influences.
- Boss-induced factors.
- Group-induced factors.
- Personal elements.

Some factors overlap, such as unreasonable priorities which can often be both organizationally influenced as well as boss induced.

Among organizational factors are layers of officialdom and review, degree of centralization, specialized staff functions, and organizational stability. Where these are characterized by clarity, flexibility, and reasonableness, the impact on morale is favorable.

Such attributes enable goals to be seen more clearly, facilitate decision-making, make it possible to accommodate changing needs and group proposals, and otherwise provide a good working climate.

If such organizational elements are marked by rigidity, excessiveness, or obsolescence, the impact is negative.

James C. Worthy, vice president of Sears Roebuck and Company, found a relationship between company structure and morale in a study of several hundred organizations. The study revealed that big-

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KEEP MORALE HIGH

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ness and complexity, the presence of many levels of authority and supervision, elaborate systems of control, and other factors severely hampered the opportunity of individuals and groups to develop their capacities for initiative and self-reliance. Where organizational structure and functions are unadaptive, serious communication blocks are introduced and morale slides.

Boss-induced factors and management practices, however, are the most potent influences. Even with a clear view of company signals, each unit of the company looks to its quarterback. It is the influence of the immediate boss, not on a single occasion but in a cumulative way, which carries the greatest impact on managers. His attitudes and behavior strongly influence the morale of his subordinates.

Men want to make good. To the extent that the boss-induced setting enables them to make good, morale is bound to be high; to the extent that it fails to do so, it will be low. What are the significant wants of managers, other than job tenure, pay and fringe benefits, and status offered by the company? They want opportunity, a chance to use their abilities, to know what's expected of them and where they stand. These provide a cue for the executive in dealing with significant morale factors among his employes.

In seeking a reasonable chance to have these wants met, managers look to the boss to give them freedom to fulfill their responsibilities, to show fairness when he criticizes, to treat them with dignity, to keep them posted on changes which affect them, to give credit for a job well done.

In short, managers are not so much interested in the boss's temperament or personality. They accept it as part of the culture of the office. They are more concerned with action—evidence of his capacity for these essentials in helping them fulfill their wants or needs. To the extent that they get such leadership they respond with followership.

Group-induced factors influencing morale are generally well recognized. They include challenge of the work assignment, attitude toward management, distinctive group goals, observable progress toward these goals through exercise of judgment and combined abilities. The range of opportunities and the rewards system also are often group-induced.

But here, too, we face boss-induced influences. The group, as the individual, feels the impact of the boss and has certain reactions toward him and his practices.

Several psychological studies have shown that, of the various dimensions relative to group morale, only pride in the group correlates significantly with its productiveness.

Dr. Gordon L. Lippitt, president of Leadership Resources, Inc., has studied this phenomenon in different organizations. He views group standards and cohesiveness as primary characteristics of group morale. He draws profiles in terms of formal or informal, flexible or inflexible, receptive or hostile.

The industrial psychiatrists, Drs. Alan A. McLean and Graham C. Taylor, have observed that one of the strongest forces influencing the behavior of an employe is his concern for preserving the integrity of his group. The effect of this cohesive influence, they contend, will often show up in the general level of morale—especially in the way employes react to company requirements and problems, the way they look out for one another's interest.

Personal factors in the morale picture run the usual gamut. The degree of emotionalism aroused, especially if adversely induced by other influences, will be affected by elements in a man's personal make-up—his health, personal aspirations, family problems, age, economic security, volume of travel assignments.

Indicators of morale

Techniques for determining the morale of an organization include the intuitive feel for attitudes in an office, hearsay, day-to-day communication, appraisal counseling, opinion polls, analysis of reasons given for transfer requests.

Most of these instruments have been used largely to gauge morale among nonsupervisory employes. The earliest efforts date back to the work of Western Electric in the 1920's. More recent efforts include the General Electric Company's Employe Relations Index, the Triple Audit developed by the Industrial Relations Center of the University of Minnesota, the morale inventory formulated by Science Research Associates, Inc., the social audit advocated by some leaders in the personnel management field,

KEEP MORALE HIGH

continued

and variations of the attitude survey.

In all these there remains one basic difficulty: to be able to know what is normal for morale among managers so that you can determine deviations from normal.

A good mix of techniques, such as the following, is recommended for getting to the indicators of the level of morale:

- Observation.
- Appraisal counseling.
- Critical incidents.
- Occasional surveys.

Observation—study of how people handle their responsibilities—should be your principal tool. Observe the reactions of managers as reflected in their participation in staff conferences, their behavior with colleagues and subordinates, their punctuality, and their general demeanor in dealing with clients, vendors, competitors, and groups in the community.

The periodic appraisal counseling session offers another means of feeling the pulse of an executive's morale.

In these sessions, particularly if you allow freedom of discussion, you can get to his attitudes toward management policies and relationships with his boss and with others as these affect the caliber of his performance.

Critical incidents—instances in which an emergency arises because of mishandling of a situation—provide an opportunity to question the man or men responsible for the boner and to identify some of the reasons for the mistakes. It also provides an opportunity for the manager to give his side of the story and possibly disclose sources of poor coordination, lack of initiative, or other adverse symptoms.

Within the scope of critical incidents you could also include complaints, rumors that have to be counteracted, disputes between superiors and subordinate managers.

Occasional surveys can pinpoint opinions of managers, foremen, or supervisors. Such surveys should be launched with discretion and should draw out the views of managers on specific company developments. The surveys should be well-timed and invite anonymous responses.

Proper use of this combination of techniques, particularly if there is constructive and timely follow-up,

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KEEP MORALE HIGH

continued

should yield cues helpful in diagnosing morale.

Keeping morale high

The three dimensions of the constructive side of morale are these:

1. Build it.
2. Maintain it.
3. Rebuild it, if and when it declines.

To build morale, give balanced attention to the factors that influence it. Take stock of yourself as a boss, for your attitudes and behavior constitute the most powerful influence on the morale of those working for you.

Where organizational factors prove to be an impediment, it is your responsibility to make known to top management the impact of practices and policies which adversely affect coordination and performance. The degree of success you have will depend on your status, negotiating ability, and persuasiveness. But to build morale you must express your convictions and at least try to get action.

To sustain morale at a high level, hold to your commitments as an executive. Guard against overextending or flaunting your authority. Maintain good relationships with associated departments. Face up to issues which call for decisions and be consistent and equitable in making them. Keep the standards of performance at a high peak.

Continue to develop plans on a timely basis, and cut key managerial people in on the plans. Trust your men and give them enough freedom to meet their responsibilities—unless you have justifiable reasons to do otherwise. Watch the informal organization, and harness it effectively. Block out enough time to confer with people—on their performance, their problems, their views. Treat them with dignity but firmness. Show genuine interest in their growth.

If things develop which could have a harmful impact on morale, catch them at the first indications and take action to head them off.

(If the combination of factors in the job environment is such that the men are able to do their jobs well and derive pride and satisfaction in doing so, then keep it that way. Don't tamper with the work environment in such cases.)

Finally, through one means or another—formal or informal—make periodic audits of how things stand and how your managers feel.

To rebuild morale when indicators show it's declining, first get promptly to the underlying causes. This calls for diagnostic abilities on your part, as well as your time—no matter how pressing other things may be.

The decline could result from any number of things: a radical change for which personnel were not quite ready, a broken promise, line and staff squabbling, a clique trying to dominate the show in the department, an unreasonable policy.

Probe, find out what you think is behind it, confirm your findings, and plan an approach to correct the situation. Confer with key people and take them into your confidence. Get them to spread belief in, rather than suspicion of, your motives.

Do what you can to communicate effectively so that doubts and tensions diminish as people get the story and see reason for their hopes to rise.

Rebuilding morale is a psychological problem not an engineering or public relations problem. You can't slide-rule it or start a campaign for promoting it. Nor can you achieve it by phony rewards, gimmicks, or pep talks. Morale reactions generate slowly, once it is clear to people that the negative factors disturbing them are being lessened or removed.

Above all, the task of rebuilding morale calls for involvement of people. As the noted management consultant, Lyndall Urwick, has pointed out: Morale cannot be built up without a sense of participation and the expression of one's thoughts and energies.

In the long run, the state of morale among managers must be measured in terms of the quality of personal relationships, awareness of goals and efforts to attain them.

If you begin with the premise that what managers want most is to make good in doing their jobs and in having a fair chance to move ahead on the basis of their performance, then every executive has the task of providing the climate for this basic need. If he is alert to it, he is potentially a morale-builder; if he is neglectful of it, he is on the way to becoming a morale-breaker.—NATHANIEL STEWART

REPRINTS *of "You Can Keep Morale High" may be obtained for 25 cents a copy, $12.00 per 100 or $90 per 1,000 postpaid from Nation's Business, 1615 H. St. N. W., Washington 6, D. C. Please enclose remittance with order.*

Unions open new attack on conservatives

Build political machine in South to elect liberals and break coalition in Congress

UNION LABOR has launched a multimillion dollar political campaign to elect more liberals in the South and tip the balance in Congress in the unions' favor.

AFL-CIO leaders expect the campaign to prove more successful than a CIO southern organizing drive of a decade ago, which fell far short of its goal, and to bring them even more benefits through more favorable legislation and law enforcement.

Top political strategists of AFL-CIO are George Meany (right), president; James L. McDevitt (center), director of COPE, and William F. Schnitzler

Any success achieved will likely be at the expense of the public, employers and workers throughout the nation. It will result in bigger government, higher labor costs, more infringement on management responsibilities, and more restrictions on individual worker rights.

Big objective of "Operation Dixie II": To further union goals by destroying the conservative southern Democrat-Republican coalition in Congress and electing union-dominated local and state governments.

"If we become stronger at the local and state levels," James L. McDevitt, director of the labor federation's political arm, the Committee on Political Education, told NATION'S BUSINESS, "we will become stronger at the congressional level.

"If we elect liberals to the state house and state legislatures, it is inconceivable that we would elect reactionaries to Congress."

Prime union targets: Right-to-work laws in 20 states (11 in the South), which unions blame for slowing down membership growth, and the chairmanship of important committees of the House now held by southern conservatives.

Top legislative goals: Repeal of the right-to-work laws and others which unionists call antilabor and enactment of new laws which would give unions more power and protection and boost payroll costs by dictating higher wages and unemployment and disability benefits.

Operation Dixie II is just getting started and real results are not anticipated until the next Congress and state legislatures are elected in 1964. An exception is Mississippi, which will elect state officials this year. The new political drive calls for putting into operation in every southern state a standard

Labor's political drive tasted success in Georgia. Carl Sanders, addressing union meeting above, and Charles Weltner, the only candidates unions supported, both won

plan labeled, "Program for Progress." It is modeled after a program which unions claim has been used in Louisiana to repeal the state's right-to-work law, increase workmen's and unemployment compensation benefits, kill a proposed increase in the general sales tax and impose a tax on business instead, and switch the primary election day from a Tuesday to a Saturday to make it more convenient for union members to vote and engage in election activities.

The programs cover all aspects of political activities and are financed by an annual assessment of $1 or $1.50 on each union member in addition to funds available from the regular per capita tax to operate the state federations, whose regular dues are also partly political. State union officials usually run the new political programs, which are authorized at state union conventions as permanent, long-range programs with permanent and regular financing. This can build political war chests of several million dollars.

COPE activities in other states are not as formal and are financed out of dues money rather than through special assessment.

Formal plans are in operation in seven of 13 southern states having union membership of 757,000 on the basis of 1960 reports to the Bureau of Labor Statistics. Arkansas and Mississippi assess the unions $1.50 per member per year, the others $1. On this basis, and not including funds available from normal per capita tax payments into the state labor organizations' treasuries, the seven states will have $817,500 a year to spend as they wish to elect friendly local and state officials. (Federal law bars use of regular union dues in federal elections except for educational purposes.)

The breakdown by states:

Alabama	$185,000	Mississippi	$ 67,500
Arkansas	$108,000	S. Carolina	$ 35,000
Florida	$150,000	Tennessee	$140,000
Louisiana	$130,000		

Unions in other southern states are considering adoption of the same plan. If they do, and the assessment is $1, the states will have $847,000 available for political activity, making a total of $1,664,500 for the entire South. The breakdown for the other states:

Georgia	$115,000	Oklahoma	$ 50,000
Kentucky	$132,000	Texas	$375,000
North Carolina	$ 80,000	Virginia	$ 95,000

The per capita tax on which the state labor organizations may also draw for political funds is not inconsequential. In Louisiana it is 20 cents a month for 130,000 members of AFL-CIO affiliated unions. This adds up to $312,000 a year, in addition to the $130,000 from the political assessment.

Federation leaders boast: "Today organized labor is the most powerful and effective single force in Louisiana politics and in the state legislature."

Typical of the southern drive is the "Program for Progress" adopted in Arkansas for the next seven years, ending Nov. 30, 1969. Budgets are drawn for political spending for each year, including $56,000 for initiative and referendum campaigns in 1966

UNIONS ATTACK

continued

and 1968, apparently to seek repeal of the right-to-work law.

It has budgeted $75,000 ($20,000 next year, $35,000 in 1966 and $20-000 in 1968) for campaign contributions to candidates for governor and state legislature.

These funds are in addition to voluntary contributions collected from union members for COPE, half of which remains in the state, and money spent from union treasuries for voter registration, political leaflets and other "educational" activities.

Although the format is the same, the legislative program varies depending on the status of labor laws in the particular state. The Arkansas program has a 17-point legislative plan which includes:

Repeal of the right-to-work and other "antilabor" laws, higher workman's and unemployment compensation benefits, higher teacher salaries, enactment of a disability insurance law, a law against recruitment of strike replacements, a shift in the tax burden from consumer and lower income groups to corporations and utilities, state minimum wage law.

Operation Dixie II and plans for coming election campaigns will be discussed at 15 COPE Area Conferences in which all 50 states will participate, beginning in the south, from March to early June.

This month they will be held in Norfolk, Va.; Gatlinburg, Tenn.; Houston, Tex.; Little Rock, Ark., and Oklahoma City.

Underlying the new political drive is the fact that key House committees are controlled by southern Democrats who, because of the one-party history of their districts, are better able to pile up the many years of seniority needed to become (and remain) chairman or a member of the committees.

Examples: The House Rules Committee, which usually decides what legislation approved by other committees will get to the House floor; and the House Ways and Means Committee, which considers tax and most welfare legislation involving taxes.

Fights over the membership of these committees in this session were won by union and other liberal groups.

Conservative committee chairmen from the South are accused by union lobbyists of blocking legislation they want passed. The AFL-CIO aims to change this by purging the Democratic Party of conservatives, even if it means the election of more Republicans south of the Mason-Dixon line.

"You can see the beginning of a two-party system taking place right now," Mr. McDevitt notes, "Some day we hope to eliminate the conservative coalition in Congress by reducing the combined voting strength of southern Democrats and Republicans.

"You are going to see a general party realignment in the South. Voters will force the change. They will drive reactionary elements who have controlled election machinery into the Republican Party, which more nearly represents their views.

"There is no room for two conservative parties in the South. Strong Democratic control has given the voters no choice between candidates; issues are never a factor.

"The situation has been costly for the rest of the country. It has protected southerners in their committee chairmanships in Congress. It has also protected the South's low-wage areas, giving them competitive advantages over the North.

Republicans gains in the South are confirmed by election trends, but Republican leaders don't credit COPE with them.

I. Lee Potter, in charge of the southern division of the Republican National Committee, acknowledges some union election successes, but attributes them to labor's financial resources.

"Whenever the Republican Party

> "To reduce the 'coalition' to minority status is the first and most immediate mission of the liberal-labor forces in America. In the push for a liberal majority, the strategy must shift from the North to the South."
>
> —Gus Tyler,
> political director,
> International Ladies'
> Garment Workers' Union

was strong enough to put an effective organization in the field against a union-endorsed candidate, we generally won," he told NATION'S BUSINESS.

"This is because the Republican philosophy serves the interest of the workers as well as other groups in our nation and, given the facts, the working man recognizes this.

"COPE, for months before a campaign, builds up its war chest and indoctrinates union members. In contrast, we must rely on contributions which come in during the thick of the battle, with little opportunity to build up our treasury for organizational work during the off years."

Mr. Potter is a longtime member of the musicians' union, former member of the typographers' union, and former president of a local union of government employes.

One race in which Republicans picked up a seat in the House in a head-on clash with COPE involved Tennessee's Third District seat previously held by Rep. James B. Frazier, Jr., of Chattanooga.

The union organization set out to defeat Representative Frazier because he had cast a decisive vote against a health scheme for the aged under social security as a member of the Ways and Means Committee. They backed Wilkes T. Thrasher in the primary and succeeded in defeating the seven-term congressman.

In the election, however, Republican William E. Brock III won, although the Republicans had not run a candidate in that district since 1956 and were able to get only 30 per cent of the vote in 1952, when Republicans put Gen. Eisenhower in the White House and gained control of Congress.

Union and Democratic sources attribute recent Republican gains largely to southern reaction to the Kennedy Administration's activities against racial discrimination.

They claim that factory workers and racial minorities will have more influence at the polls and help the Democrats as industrialization of the South increases, obstacles to voting are removed, and variations from the popular vote, such as the unit rule, are broken down.

Samuel C. Brightman, deputy chairman of the Democratic National Committee, believes that taking the country as a whole, increased registration and voting helps Democrats.

What about the rise of Republicanism in the South?

"If and when the South becomes

UNIONS ATTACK

continued

a two-party area," Mr. Brightman says, "we think the Democratic Party will be able to hold its own."

COPE measures its success by the success of candidates it endorses. It claims to be electing more endorsed candidates, and last fall more of them won in the South than in the country as a whole.

It endorsed 363 candidates for Congress and 213, or 58.7 per cent, won.

Forty-two of the victories were in 13 southern states, where 64 were endorsed, giving COPE a 68.1 per cent record in the South. **END**

Where unions will plan political drives

Every year, from March to June, the AFL-CIO Committee on Political Education conducts what it calls "Area Conferences" across the country for union leaders and political workers.

At each conference union groups from several states discuss political issues, trends, fund raising, how to get more union members registered and to the polls, and other political problems with national COPE leaders.

Union leaders claim that, since the conferences are educational and thus may be financed out of union treasury funds, the conferences do not go into candidates or endorsements. Candidates and political strategy are usually covered in private discussions.

Last year more than 6,000 union delegates attended 14 conferences which, Director James L. McDevitt says, gave the federation's political machine "a fast start to our participation in the crucial fall elections."

Dates, locations and areas covered of 15 conferences scheduled this spring:

Norfolk, March 2-3—District of Columbia, Maryland, North Carolina, South Carolina, Virginia.

Gatlinburg, Tenn., March 6-7—Alabama, Georgia, Tennessee. (A special one-day conference will be scheduled for Florida in June.)

Houston, March 13-14—Louisiana, Texas.

Little Rock, March 16-17—Arkansas, Mississippi.

Oklahoma City, March 20-21—Kansas, Oklahoma.

New York City, April 2-3—New Jersey, New York.

Boston, April 5-6—Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont.

Pittsburgh, April 26-27—Delaware, Pennsylvania, West Virginia.

Cleveland, April 28-29—Kentucky, Michigan, Ohio.

Chicago, May 1-2—Illinois, Indiana, Wisconsin.

St. Louis, May 4-5—Iowa, Missouri.

Moorhead, Minn., May 21-22—Minnesota, Montana, Nebraska, North Dakota, South Dakota.

Portland, Ore., May 25-26—Alaska, Idaho, Oregon, Washington.

San Francisco, May 28-29—Arizona, California, Hawaii, Nevada.

Denver, June 1-2—Colorado, New Mexico, Utah, Wyoming.

if you ship (or buy) any one of these commodities...

Abrasives (cloth, paper, wheel)
Advertising matter
Ammunition—small arms
Anti-freeze
Automatic controls (electric or pneumatic)
Automobile parts or accessories
Awnings (cloth or aluminum)

Bags
Balancers (wheel, automobile)
Batteries (dry cell or storage)
Baseboard radiation enclosures
Batting
Belts or belting
Bicycles and tricycles or parts
Binders or covers
Biological products
Bird food
Blankets
Boxes or crates (including fiberboard)
Boiler cleansing compounds
Books
Brake blocks
Brake linings
Brake or shock absorber fluids
Brassieres
Brushes
Buffing or polishing compounds
Builders' Hardware specialties
Burial cases or caskets and accessories
Burial vaults and accessories
Business machines and parts
Buttons or button heads

Calendars
Cameras
Candles
Candy or confectionery
Carbon, activated
Carbon brushes
Carpets and rugs
Casings (food)
Caster bolts (forks, sockets and wheels)
Casters, furniture
Casters, truck
Catalogs
Cellulose film products
Cement (flooring)
Cement (liquid or other)
Cement (compound, building or floor)
Chair cushions and covers
Chemicals
Chewing gum
Children's vehicles
Chocolate
Cigars
Cigarettes
Circuit breakers
Cleaning, scouring or washing compounds
Cloth, dry goods or fabrics
Cloths or rags (wiping)
Conduits or fittings
Coolers, cooling boxes or refrigerators
Cordage
Couplings
Crucibles or muffles
Crude petroleum treating compounds
Curtains
Curtain poles or rods
Curtain pole or rod fixtures

Deodorants, household
Disinfectants (household)
Dishware
Draperies
Drugs
Dry goods
Dye stuffs

Electrical appliances or equipment
Electric fans
Electric motors
Electric razors
Electric switches
Electric tools
Electronic parts
Envelopes and patterns

Fabrics
Farm implements and parts
Fasteners
Fertilizer applicators
Fertilizing compounds (manufactured)
Film (unexposed)
Firearms and parts
Fire extinguisher charges or compounds
Fire extinguishers
Fire extinguisher shells
First aid kits
Flags and flag poles
Flashlights
Floor coverings and related articles
Foil or foil wrappers
Footwear

Generators
Girdles
Glue
Graphite articles
Grave markers and accessories
Grave vaults and accessories
Greeting cards

Hair cutting kits or clippers
Hammocks
Handbags and purses
Hand tools (electric and pneumatic)
Hangers (garment)
Hardware, such as:
- Brackets
- Catches or latches
- Chains
- Door checks
- Door hangers or rails
- Fasteners
- Hinges or butts
- Holloware
- Key blanks
- Knobs
- Locks or lock sets
- Screw eyes or hooks

Heels or soles
Hoists
Horns and signals
Hose (rubber or plastic)

Infants' wear
Ink (printing)
Insecticides or fungicides (agricultural)
Insecticides, insect repellents *(household)*
Insulating materials
Insulators

Junction boxes

Labels (paper or cloth)
Lanterns
Lighting fixtures
Leaflets

Leather finishing or softening compounds
Letterheads
Lift jacks
Liquors and wines
Laboratory equipment
Lubricating system sight feed fluid

Machinery or machines
Magazines
Magazine covers
Magnetic tape
Matrix
Medicines
Metals or alloys
Metal cutting, drawing or drilling lubricants
Meters

Nails or spikes

Oils (lubricating)
Oil, water or gas well outfits and supplies

Packing
Packing devices
Pads or padding (cotton)
Paint sets
Paints, paint materials or putty
Pallets, platforms or skids
Paper
Pencils
Pens
Photographic equipment and supplies
Piece goods
Pipe or fittings
Plaster grounds
Plastic materials
Plastic or rubber articles
Playing cards
Plumbing and heating supplies and fixtures
Plumbers' goods
Pole or transmission line construction material
Polyethylene film
Printed matter
Printing plates (Letter press or lithography)

Radiators (engine cooling)
Razors and razor blades
Refrigerating compound
Refrigerators and parts
Rope
Rubber and rubber products
Rugs and carpets

Safes or safe and vault parts
Saw blades
Sealing tape
Seeds
Sheets
Sheet music
Shock absorbers
Shoes
Signals or signs (traffic)
Signs (metal)
Silicon carbide briquettes
Silicon carbide, crude
Snuff
Soap
Spark plugs
Speedometer (or speed indicator) connections
Speedometers
Sporting goods
Sprayers
Sprinklers
Sprinkler heads
Spools
Spool heads or centers
Stationery (and supplies)
Stoves
Sump pumps
Surgical or medical instruments
Swim wear and caps

Tablecloths
Tags
Tanks (air pressure)
Tape (Magnetic, sound recording)
Tarpaulins
Telephones, sets or parts
Tents
Thermostats
Tile or tiling
Tire and tube repair materials
Tobacco products
Toilet preparations
Tool stands or cabinets
Tools (Hand and power—electric and pneumatic) such as:
- Axes
- Bars (claw, crow, wrecking)
- Bits (auger or drill mine)
- Drain cleaners
- Drill or auger bits
- Drills (hand, mine, star)
- Forks
- Garden tool sets
- Grease, oil or caulking guns
- Jacks
- Lasts
- Mallets
- Oil cans
- Paint applicators (roller)
- Pumps
- Shovels, scoops
- Squilgees
- Stamps (dies)
- Tools in chests or boxes
- Torches
- Vises
- Wedges

Towels
Truck and trailer parts and accessories
Tricycles and parts
Tubing and fittings
Tufted textile products

Vacuum cleaners and parts
Valves (tires)
Vehicles (non-motor—wheel barrows, etc.)
Vehicle parts

Washers or gaskets
Water (drinking)
Wearing apparel
Welding accessory kits
Welding bars, rods, or wires
Welding electrodes
Welding compound
Welding kits
Wheels or wheel blanks
Windshield wiper arms, blades and motors
Wines and liquors
Wire (sound recording)
Wrapping paper
Yarn

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WHEN TO SPEAK UP

These suggestions will help you communicate with more effectiveness in your organization

THERE'S A TIME to speak up and a time to keep quiet. Knowing the difference obviously can help you.

The difference may not always be apparent. There are gradations of what can be talked about and how and when to speak your mind on company affairs. Each firm has an atmosphere which shapes its communication patterns.

Moreover, individual executives have their own strategies for keeping informed, their preferences for sources of new ideas and viewpoints, their whims as to who should speak, and their own ground rules on the extent and kind of discussion allowed.

Your associates have different tolerance points. Some staff specialists adopt a defensively parochial outlook. Others take a more broad-gauged view. Committee chairmen differ in their handling of meetings. And your subordinates vary in their personalities and in their capacity to listen to and consider what you say.

To assist yourself and others in becoming more effective in speaking up, it is important to know:

- What prompts people to speak up.
- When to speak up and to whom.
- How to speak up effectively.

These points are valuable whether your firm is a one-man show or a company with considerable democracy.

Why people speak up

Robert K. Greenleaf, of American Telephone and Telegraph, crisply expresses the opinion of industrial research psychologists on this point: "You can't tell anyone anything." All you can do by presenting your view is to set the stage for persuasion—that is, to enable the other fellow to think about what has been said and to determine for himself whether to accept this, rather than a previously held, belief.

Yet, in everyday business a man often tries to tell someone something. What prompts an individual to speak up? A number of factors:

First, a loyal, enterprising manager, foreman, or supervisor wants to protect the interests of his company. If he believes something needs to be done, that some activity is wasteful and should be corrected, he will try to present a case for what he feels is required. He may also be prompted by a desire to improve the performance and reputation of his own branch or department.

On some issues a man is prompted to speak up on the basis of conviction and moral courage. This is not unusual. The first point in General Mills' statement of company philosophy, for example, stresses the importance of high moral and intellectual integrity that entails adherence to principle, impartiality in decisions, and straightforwardness. The credos of other progressive companies put equal emphasis on these qualities.

The late Moorehead Wright, of General Electric Company's Management Research and Development Institute, held that concern for moral values, the search for wisdom, and a right course of action which

considers moral values among others are essential in making a manager grow.

A desire to participate in the planning process is another strong reason for speaking up. Having a voice in planning gives a manager a sense of involvement in shaping the company's future. Planning is a premium kind of decision-making. For this reason, and especially where the nature of the decision will affect a man and his staff, he is prompted to speak up.

Sometimes an executive will express himself when he feels he's earned the right to be heard—by virtue of his experience, rank, unusual technical competence, or some other recognized attribute.

The desire for the respect of one's fellow managers is another factor which impels a man to have his say. He may talk about the achievements and progress of his group, go to bat for his subordinates when this is called for, or outline plans for the division. All this gives him a sense of self-fulfillment, both as an individual and as a manager. However, in doing this he is also obligated to pass along problems, warnings of impending crises, and requests for help.

These are among the positive and constructive prompters. There are others, less laudable: the desire to propagandize one's views, the itch to be heard in the right circles, jumping the gun on the next fellow, just plain talkativeness, or getting something off one's chest no matter how inappropriate the time or situation.

When to speak up

Like citizenship, the freedom to speak on company matters involves not only rights but obligations as well. This carries over into our relationships with superiors, associates, and subordinates.

Speaking up to superiors must be carefully thought out and reasonably effective, since the goal is acceptance of what you're speaking for. You must be convinced that what you have to say is worthy of a hearing by busy men.

The need to speak up to associates is tied to the kind of relationship which makes your performance more effective. An organizational unit seldom is self-sufficient; it depends on working relationships with other units.

Generally, this kind of teamwork comes naturally where there is able leadership, clear policies and objectives, well allocated functions, and good morale. But there are times when a manager has to do verbal battle if these ingredients are missing and coordination is not so good.

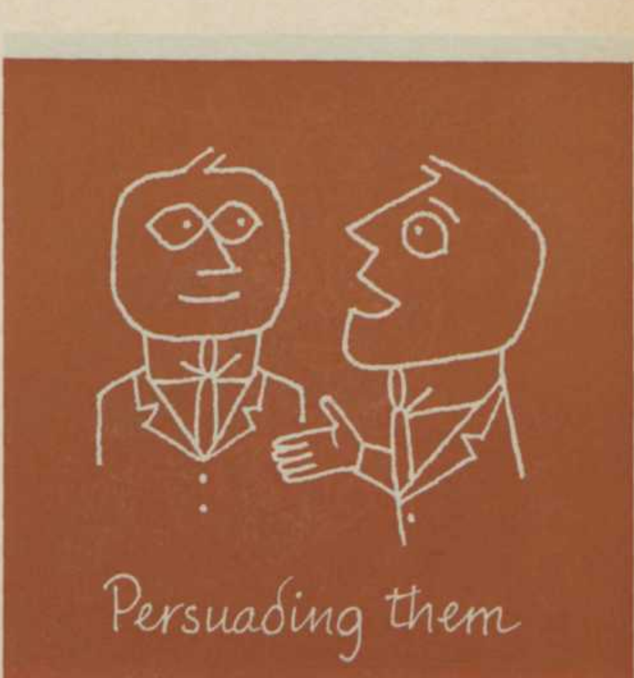
In such cases, whether it involves line-staff or line-line relationships, you have to speak out to persuade, negotiate, or even have a showdown in order to get better coordination and, consequently, better performance of your unit.

If the lines of authority are fuzzy, if there is overlapping or duplication which prevents good coordination, be prepared to carry your case to higher echelons. If you have to disagree with an associate in the speaking-up process, learn to disagree agreeably. You'll have to do business with him again tomorrow. Most conflicts with associates can be ironed out as long as there is continuity in working relationships. When this is severed, prospects for resolving a conflict are dim.

In regard to subordinates, the skill is to express ideas from the employe's viewpoint. Use language he can understand. Use the most appropriate media. An oral presentation may or may not be the most appropriate in certain instances. Conscious consideration of basic goals and employe attitudes is essential.

Another prescription is offered by communication experts Robert Newcomb and Marg Sammons: In addressing your employes: 1, tell them in advance; 2, tell them the truth; 3, tell them why; 4, tell them the bad with the good; and, 5, encourage them to speak up.

In dealing with an assistant your oral communication should be directed largely to keeping him posted on plans and developments, criticizing privately and



constructively, explaining your delegations clearly, counseling him after performance review toward his own self-improvement, and backing him up when he deserves it. Again, encourage him to speak up by giving him a chance to think for himself. Make him feel free to ask for more responsibility, and get him to give you progress reports orally as often as necessary. Encourage him to explain the status of his work, problems, difficulties, and his plans for meeting these situations.

When you have to criticize, plan your approach. Begin with questions rather than allegations. Control yourself against emotional outbursts. Prior to this, of course, be sure you get the facts as fully as possible in order to rid yourself of any prejudgments.

Speak up effectively

Here are some guidelines:

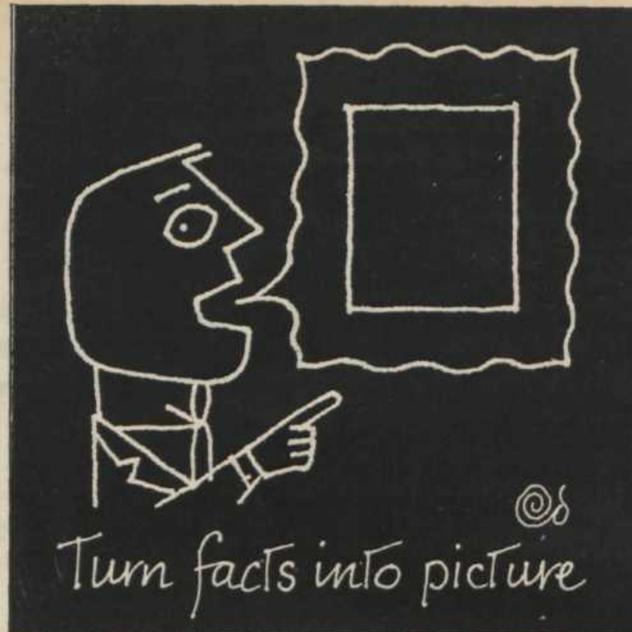
Don't fight the company climate. If your boss is convinced that what you have to say warrants a hearing and he believes in it, he will eventually give you the audience you desire.

Concentrate on the need to express yourself in behalf of a need or a cause, not to impress your listeners with your learning or charm. If the latter is attained indirectly, too, consider it a bonus.

A middle management official in an electronics company recently was asked to leave because he repeatedly irked one of the vice presidents. The man fancied himself a logician, and in the course of meetings he would irritate the vice president with interruptions:

"You are not focusing on the central issue—and there's no point in concerning ourselves with the side issues while overlooking the central issues", or,

"You're basing the entire discussion here on an invalid premise. Let's examine the premise once again."



There might well have been errors in reasoning and the logician might have been correct in drawing the discussion back to the fundamentals. But his pseudo-sophisticated manner and insistence were offensive to the vice president.

Organize your principal thoughts, use examples, and avoid encumbering main points with any sidelights. If necessary, try your ideas out on a friend first.

Criticize if you must, but don't limit yourself to criticism alone—add something.

In dealing with top management, present the issue in terms of a challenge and relate it to company objectives. Express opinions but be ready to justify them. Leave plenty of time for questioning—and be prepared for the questions. Be ready to modify your proposals if suggested changes are sound.

Try for good timing and the right atmosphere. Schedule your presentation for a period when the pressure is off those who must listen. Gain rapport with your listeners. Be brief.

Not many of us are gifted with what Dale Carnegie described as the skill of turning a fact into a picture. But speaking up can be dramatic in itself in converting a viewpoint or conviction into an asset for the company.

How company can help

Each company develops its own climate which governs, among other things, the pattern of idea-generation, discussion, participation in staff meetings, and debate on controversial issues. In short, the climate often dictates who can speak up, when, and how.

This internal culture embraces etiquette, protocol, and even taboos. Some subjects are sacred cows which nobody discusses.

Until recently any talk about automation in a certain banking firm was virtually censored. A medium-sized firm in the mail order business, which had its fingers burned once because of rash action in

an ill-conceived cost reduction program, will not tolerate anyone making a bid for work-measurement systems. Discussion of politics is frowned upon in some insurance firms.

In one chemical concern there is a rule that only people in research and development can be heard on product diversification and development. On the other hand, du Pont wisely taps the constructive ideas of all its officials on new product development. This kind of encouragement has done much to foster imaginative new ventures by the company.

Bans on talk in various companies extend to salaries, competitors, nominations for promotion, use of consultants, grievances, labor-management negotiations, employes' health problems, religion. Shop talk at coffee breaks is frowned upon in some firms, but looked upon favorably by others. Crises are discussed only in hushed tones in some firms, while in others they are openly reviewed in management meetings and even broadcast over public address systems to counteract rumors and distortions.

Etiquette also varies. Some companies insist that executives communicate only through channels. At staff meetings in one public utility a man can raise a certain subject only if a preliminary poll has shown that other officials have no objection.

In most corporations, where both an upper echelon executive and his immediate subordinate attend the same staff sessions, protocol prescribes that only the superior officer will talk.

The president of a hospital equipment manufacturing firm insists that he wants no talk, private or public, from anyone if it in any way relates to the performance of another division. He cuts short such comments with the terse rebuke: "Don't tell the other guy how to run his business; take care of your own division."

Running counter to the company's culture can have serious consequences for the man who dares to speak up.

Speaking up can also be harmful when the man making the presentation displays lack of knowledge or is unable to answer key questions. Letting a round-table discussion deteriorate into a give-and-take of criticism leads to loss of confidence and even reprisal. Suggesting action which violates long-standing policy can get you into difficulty. Challenging a position which has already been agreed to in a union contract also is likely to bring trouble.

The vice president of a major transportation service, who had been trained as a lawyer, gives his managers an opportunity to speak up when they feel they want an audience. However, he expects lawyer-readiness in defending their views—down to the smallest details. Some of the men come through well. Others do not. Most other vice presidents expect the opposite: They want a brief exposition on the highlights, the relationship to larger company objectives, and an awareness of the risks involved. Details can be resolved later.

The Yale Communications Research Program has shown that "unless the listeners learn something from the speaker's message and unless it induces them to accept a new opinion, they are not likely to change the opinion they already have."

It follows, then, that if a company hopes to be open minded toward ideas and views, whether to improve or to innovate, it has to set the stage for inducement. To do so it must modify the inhibitors in the company which restrain people from speaking up on legitimate subjects. Otherwise, key people will tend to cling to opinions they already have for lack of exposure to different and possibly more profitable views.

A company should recognize that reasonable freedom of expression should assume that the man who speaks up communicates more than content. He also communicates feelings and convictions. At times he will try to plead his case for not only logical appeal but also emotional appeal.

This is what the late Clarence Darrow, in his courtroom strategy, called "spotlighting." While the company culture should keep the men from going to excess, it should provide reasonable avenues for expression.

Moreover, the company has to reduce or remove the more serious influences which stifle expression: fear of penalty, the heavy hand of tradition, the hoarding of information, domineering personalities with excessive power, and bureaucratic resistance to an evaluative look-in-the-mirror.

Vanity, inertia, bias, and timidity are not only personal characteristics; they can also be organizational or institutional qualities. These and other restraints upon a man speaking out within the bounds of his interests and responsibilities tend to stagnate an organization. When they do, the company—rather than the man—is the loser. **END**

REPRINTS *of "When to Speak Up" may be obtained for 25 cents a copy, $12 per 100, or $90 per 1,000 postpaid from Nation's Business, 1615 H St. N. W., Washington 6, D. C. Please enclose remittance.*

HEALTH SCHEMES

continued from page 41

those rendering medical care to him. There is never "free" medical care for anyone. Some form of means test is either retained or replaced by a medical needs test. Medical care is the kind of good that can never be free and at the same time available at the discretion of the person seeking it. The "freer" it is, the stiffer the controls.

The cost of government medical care is mostly paid, directly or indirectly, by those with moderate incomes. A few national health services let the beneficiaries believe that their weekly contribution pays for all of it. Many Britons fail to see that low bracket wages are hard hit by taxes because of a health service that costs nearly half as much as the defense of the nation.

In fiscal 1961, the last year for which complete figures are available, the British health service cost \$2.2 billion, compared with a \$4.6 billion defense budget.

Or take Sweden, which made health insurance compulsory in 1955. Expenditures of voluntary sickness funds in 1954 totaled only \$55.4 million. By 1961, under the mandatory system, the cost had climbed to \$240 million. This is partly financed by withholding taxes of up to \$60 a year from a working class family and taxing the employer 1.14 per cent of payroll. But this covers only about three fourths of the cost. The rest is made up from general tax revenue. To help pay this bill, Sweden imposed a general sales tax of 4.2 per cent in 1960 and boosted the rate to 6.4 per cent in 1962.

Compulsory taxes also are used to meet at least part of the expenses in Austria and West Germany, where the tax is nine per cent of the base income, shared equally by the employer and employe.

In West Germany only wage-earners are subject to the program. The moment a man's monthly wage goes above 660 marks (\$165), he can quit the public plan. Many do. So the compulsory plan officials are trying to recapture them by asking for a higher ceiling.

Professor Wilfried Schreiber of Bonn warned last November that this rat race between bureaucrats and employes trying to escape their jurisdiction can end only in a total compulsory national health service—the socialization of the entire field of medical care.

Theodor Blank, the minister of

labor, declared two years ago: "It is intolerable both for the patients and the dignity of the medical profession to see annually more than seven billion marks collected by compulsory health insurance—every insured has to work almost one month every year just to earn the health insurance tax—and, despite all the expenditure, sick persons are poorly taken care of, the waiting rooms of the doctors are overcrowded so that they cannot give any one proper attention."

It's a vicious circle.

Under this system—resembling the proposed U. S. social security financing scheme—medical care benefits are abused because the public thinks, "It's cheap, so why not use it all the time."

Where the cost is felt more directly, the patient often gets angry. He wants medical care whenever possible. But not because it costs so little. Rather, because he knows how much it has cost him in taxes already.

When enough people feel that way, the sickness funds run out of cash. Then payments to doctors and hospitals are delayed and cut across the board. The patients find themselves more harshly scrutinized and re-examined before getting their medical care.

Of course, neither method helps reduce the deficit. So the compulsory plan officials go to work on the legislature again, asking for another hike in payroll deductions.

When this is granted, additional people decide that they should get their money's worth. The cycle starts all over again.

Perhaps the best way to grasp the status of compulsory health programs abroad is to compare them with our farm program. People are stuck with them. They are sacred cows. A special bureaucracy and vested interests insist on the continuation of the plans. Most of the beneficiaries would just as soon get rid of the government plan, but as long as they can't, they feel a duty to exploit it to the limit.

We hear that government health services have become so much "a part of the social fabric" in other countries that no political party would dare dismantle or curtail them. This hardly recommends starting such systems.

It may take 50 years in Britain and perhaps 20 in West Germany before medical care is returned to private hands.

Once a nation has caught compulsory health insurance, it will have it for generations. This is one

HEALTH SCHEMES

continued

of the strongest arguments against even any partial political experiment with it.

No country has released to private hands any part of medical care ever nationalized. The zone of compulsion has always expanded.

In contrast, basic industries, such as steel-making and trucking, have been returned to the private sector after nationalization. Thus, precisely because it is much more difficult, if not impossible, to correct misguided state action in medical care, we should fear it as much as nationalization in industry and commerce.

Ironically, promising more and more health benefits out of taxes does not always pay off on election day.

For the past several years, Austria has had a series of doctors' strikes against the conditions imposed by the compulsory health plans. The Socialist Party supported the health plan bureaucrats in the hope of winning votes from patients expected to resent the doctors.

Contrary to most predictions, the Conservative Party emerged with a majority in the autumn general elections.

It is extremely unlikely that a U. S. compulsory health system would be able to skip the troubles found in all the programs abroad. None of the human and social factors is sufficiently different.

Proponents say we must make a start toward government medical care because so many other nations have it. Yet, disregarding local maternity benefits and general public health measures, the government is involved in medical care in less than half the nations of the world.

The list of those which do not have compulsory plans on any level includes such diverse countries as Australia, Finland, Israel, Lebanon, South Africa and Uruguay.

It is a remarkable fact that the backers of compulsory federal health insurance under social security are determined to start out with a completely centralized and uniform system. It would be the core of a monopoly matched by few foreign systems.

Only Britain, Iceland, Sweden, and New Zealand have put the entire population under compulsory health insurance. But even in Iceland and Sweden its administration is left to autonomous local sickness funds that tailor benefits, and sometimes premiums, to the local situation.

In many countries, especially Scandinavia and Central Europe, health programs are left to local sickness fund societies.

Several countries with a long history of state-required health insurance have retained freedom of choice for the insured among competing insurance companies or agencies. Two years ago France extended government health insurance to self-employed farmers, but allowed free choice of a private insurer as an alternative.

West Germany has had substitute sickness funds since 1911. Membership in them exempts the employe from the obligation to belong to one of the ordinary public sickness funds.

Government dollars are pouring into our colleges. The effect is analyzed in "Federal Influence Distorts Education," starting on page 31

As in most countries, the West German system is officially called "social insurance." In fact, it redistributes from those who earn a little above average to those who earn below average. The plans collect at the same rate, regardless of risk, and return the same unsatisfactory equal benefits to all persons whether they and their employer pay $5 or $17 a month.

It's extremely unlikely that Americans would put up with a compulsory government health scheme.

One of America's leading experts on medical care costs, Odin W. Anderson, now with the University of Chicago, said two years ago that it is "entirely possible that a large proportion of the U. S. population might stay outside a government program at least in part, even though taxed to support it." **END**

REPRINTS *of "Why Socialized Health Schemes Fail" may be obtained for 25 cents a copy, $12 per 100, or $90 per 1,000 postpaid from Nation's Business, 1615 H St., N.W., Washington 6, D. C. Please enclose remittance.*

THIS PROPOSAL SHORTCHANGES YOUR CUSTOMERS

Costs and prices would rise under federal credit control plan

WHATEVER your business, you have a stake in the new push in Congress for federal regulation of credit.

The pending proposals would directly affect every retailer who sells on credit, and every lender. Manufacturers would be affected because the markets for their products would be disrupted.

Sen. Paul H. Douglas, Illinois Democrat, and other sponsors of the legislation cite flagrant credit abuses to prove the need for federal control.

A Chicago man bought a television set on time. It broke down the day after he received it. The firm threatened to garnishee his wages if he didn't pay some of the money he owed. His total debts amounted to $700. His wages had been garnisheed three times before and he feared new garnishments might mean loss of his job, or if he weren't fired, the garnishments would mean hardship to his family. After he killed himself, the coroner's jury returned a verdict of suicide while temporarily insane due to pressure from creditors.

There was also the case of the woman supporting herself and four children on a weekly wage of $55. A "conservatory of music" induced her to sign an installment sales contract for a $600 accordion for one of her children. About five months later the "conservatory" informed the woman that her daughter had displayed such exceptional artistic talent that a better instrument was required. The woman agreed to pay $1,800 at the rate of $72 a month. Then she realized she would have difficulty making the payments. Although attempts were made to ease her plight, she wound up returning the accordion after having spent $383.

How, in the face of such unhappy cases, could there be opposition to the Douglas bill?

Would the Douglas bill really curb the type of overbuying represented in the two abuse cases?

Why, despite more than three years of lobbying, do even proponents concede that consumers are not excited about this legislation?

NATION'S BUSINESS surveyed a wide variety of trade associations and federations whose members are constantly involved in credit or loan transactions to find out why they oppose such proposals, billed as a stabilizer to the economy.

Their spokesmen stress they have no objection to the bills' ostensible goal of fully informing the customer of the cost of credit. They note that it's already the practice of the great majority of credit businesses to tell the customer what credit costs either in terms of total dollars and cents, or as a monthly interest rate—whichever is feasible.

The survey reveals the majority believe:

1. The burdensome requirements would increase the cost of doing business and represent a pressure to raise the level of retail prices.
2. Calculation of an accurate "simple annual rate" is absolutely impossible in many credit accounts.
3. It would confuse the public by compelling inaccurate or misleading rather than true information.
4. The bill would encourage hiding service charges in merchandise prices.
5. It would impose federal restrictions on purely local transactions and necessitate creation of a new federal price control bureaucracy.

Senator Douglas, with 17 co-sponsors, introduced federal credit legislation in 1960. Since then there have been three sets of hearings.

Early this year he charged that Americans are paying millions of dollars in hidden costs on borrowed money; that banks charge borrowers exorbitant sums by asking interest on a monthly basis rather than on a yearly rate and by not reducing interest as debts are reduced.

To understand what sponsors want, here's an example: In a revolving charge account, where customers are now told they will pay a 1.5 per cent charge per month on the declining balance, sponsors want this charge expressed as an 18 per cent "simple annual rate" (12 x 1.5). In a typical account, however, the customer's actual paying rate would not amount to 18 per cent except under the most unusual circumstances.

His supporters push the twin theme that credit charges and inter-

est rates are often cleverly concealed and misrepresented, and all consumers have money to gain and not a penny to lose from enactment of the bill.

Besides, the argument goes, excessive use of credit threatens the economic stability of the nation. Consumers lack adequate information on the cost and thus tend to overextend their credit.

Sen. Wallace F. Bennett, Republican of Utah, congressional leader of the fight against the credit bills, replies that consumer debt has shown a stable relationship to gross national product and personal disposable income in recent years.

Rates of repayment have maintained a sensible relationship to new extensions of credit.

In fact, some leading economists take the view that the postwar credit rise has not been great enough.

"It's impossible to say at what point consumer credit becomes excessive," says William F. Butler, vice president and economist of Chase Manhattan Bank. "It seems clear we're nowhere near that point at present."

If the purpose of the proposal is to dampen sales, opponents agree that it would probably be successful, at least temporarily.

"It would have an adverse psychological effect on some customers and some sales persons," says Derek Brooks, vice president and director of government relations of the National Retail Furniture Association. "When you impose a practice nobody is following in the economy, you're playing a dangerous game. You're monkeying around with the economic machinery."

"It would cause a sales decline which the economy cannot afford," warns Fred Hachtel, president of the International Consumer Credit Association. "We need increased customer sales, not less."

"I would not want to make a flat prediction with respect to a sales decline if the Douglas bill is enacted," comments M. Monroe Kimbrel, president of the American Bankers Association, "but certainly there would be serious delay in the normal flow of business if lenders were required to furnish the specified information to the borrower in writing prior to the consummation of a transaction. Mail order transactions, add-on arrangements, sales made by a retail establishment with the credit contract prepared by the home office, and other credit sales in which involved calculations are required would certainly be dis-

Calculating an accurate simple annual rate is impossible for many accounts

How simple is it to figure "simple annual rate" on a purchase as Douglas-type bills propose? Suppose an article advertised for \$200 cash may be bought on time for \$50 down and \$20 a month for eight months. What's the annual rate if it is bought on time? Two U. S. Department of Agriculture economists list eight methods of computation that may be considered for this illustrative problem. Some, they say, have little mathematical validity. Their analysis includes this table:

FORMULAS FOR COMPUTING THE INTEREST-RATE EQUIVALENT OF CARRYING CHARGES ON INSTALLMENT SALES OR BORROWED MONEY
(All installments equal in amount)

Method	*Formula for i or d*	*Rate for example*
Priority	$\frac{2mI}{pn(n+1)-2I}$	0.169
Constant ratio	$\frac{2mI}{(C-D)(n+1)}$	.178
Direct ratio	$\frac{6mI}{[3pn(n+1)]-2I(n+2)}$	.175
Residuary	$\frac{2mI}{[2(C-D)-ph](h+1)}$	.1875
Simple discount or Series-of-payments	$\frac{2mI}{pn(n+1)}$	.167
Simple interest	$\frac{1}{m+i}+\frac{1}{m+2i}+\frac{1}{m+3i}+\cdots+\frac{1}{m+ni}=\frac{C-D}{mp}$	.181
Small loan	$a_{nr}=\frac{C-D}{p}$ All values known except r. After solving for r, then $i=12r$	.175
Present value	Same as small-loan method except $i=(1+r)^{12}-1$	.190

SHORTCHANGES

continued

rupted and this could lead to a sales slowdown."

Would the bill really protect the class of customers who, through ignorance or inattention, expose themselves to exorbitant interest or credit charges?

"For the most part the ignorant and unsophisticated would pay not the slightest bit of attention," says John A. Gosnell, executive secretary and general counsel of the National Small Business Association. "With few exceptions, those in this category who desire to make a purchase on credit will certainly do so regardless of unfavorable terms."

Mr. Gosnell notes that usury is as old as the existence of money and fraudulent sales will continue as long as unwary, ignorant people have money to spend.

The theoretical objective of the Douglas bill, he says, is enforcement of business ethics in areas which can never be fully policed. State supervision, coupled with voluntary industry action to clean up the more flagrant abuses, is the only method which has any practical chance of constructive results.

Retailers stress that the Douglas bill would not stop abuses by the few unscrupulous operators. Extreme cases often involve fraudulent practices already prohibited by existing law. No legislation ever completely stops scofflaws.

Actually a "simple annual rate" probably would confuse consumers because of their tendency to equate it with interest, which has a sort of historical top of six per cent.

"The over-all figure," Mr. Hachtel says, "is a compilation of several charges, of which interest is only one small part. To lump all these together into one sum and express it as an annual rate of interest is unrealistic."

Mr. Brooks points out that those who don't have enough education to figure out interest rates now, "by the same token, will not be able to understand the meaning if given to them by law. What is needed is more education, not more figures."

Louis Rothschild, executive director of the National Association of Retail Clothiers and Furnishers, adds that it means nothing because the paid rate may be more or less than the stated rate depending on how the customer pays the bill.

The American Retail Federation, which represents 800,000 retail firms handling more than 70 per cent of

all consumer sales, offers this considered opinion: "It is impossible to quote an actual annual rate on a revolving account since the amounts and times of future purchases and payments are not determinable. The bill seeks to gloss over this impediment by exempting a creditor from its penalties if he overstates the rate. Thus, the bill permits misquoting on the high side."

Mr. Gosnell summarizes:

"With respect to the small merchant the proposal is so burdensome and impractical that it would be completely self-defeating. The average clerk could never make the necessary calculations. In fact there are few store owners who could arrive at correct and uniform answers. But even assuming that the calculation could be made, the time required to perform this function would so interfere with the consummation of sales that the practice would be prohibitive."

"We are not opposed to full disclosure," Philip J. Mullin, executive vice president of the American Industrial Bankers Association, stresses. "Our member companies and banks throughout the country have full disclosure as they feel that it is only proper and fitting to see that the customer is told what he is paying and why. AIBA does object to the suggestion that full disclosure should be stated in terms of 'simple annual interest.' This would be a difficult task at best and, we feel, a useless one."

The National Retail Merchants Association, which represents 10,500 department, specialty and variety stores, states that revolving credit accounts would have to be abandoned because it is impossible to calculate "simple annual rate" beforehand.

"Experience," according to J. Miller Redfield, president of the National Consumer Finance Association, "has shown that the consumer, when faced with percentages, almost invariably asks: 'Just how much is that in dollars and cents?'

"For this reason, state-regulated consumer finance firms usually express their rate of finance charge in per cent per month as prescribed by state law, but also express charges in terms of dollars and cents—the language consumers understand and quite evidently prefer."

Mr. Brooks points out that "credit has been and is intensely competitive. You may be sure that if the 'simple annual rate' were informative and customers were asking for it, the forces of competition among retailers in the market place would long ago have caused this information to be given voluntarily by alert retailers seeking to get one-up on their competitors. But you don't find it anywhere. It's reasonable to conclude there isn't any consumer demand for it."

An example of the mathematical acrobatics involved would be the purchase of a \$20 battery, payable on a time basis with four biweekly payments of \$5 each and one final payment of \$2 for carrying charges.

Answers from experts on how much "simple annual interest" the \$2 represented ranged from 80 to 130 per cent. The National Automobile Dealers Association came up with at least five answers—each correct depending upon certain assumptions.

If experts offer so many varied answers to such a minor purchase, how, the association asks, can anyone reasonably expect the average employe of a business establishment to arrive at the absolute and correct answer that would protect his employer from the civil penalties imposed under the bill?

Willful violators would be subject to a \$5,000 fine or one-year imprisonment, or both.

Retailers also worry that some merchants might advertise little or "No Charge for Credit" and put all or part of the cost of the credit into the price of merchandise. Other retailers then might have to do the same thing to defend their competitive position. The customer would get less information about the cost of buying on credit—contrary to the alleged purpose of the bill.

This situation would raise a serious problem for small business. Large stores, with a wide variety of merchandise, would have far more opportunities to adjust prices to cover credit costs than smaller stores with limited product lines.

The additional cost of administering the bill, according to Montgomery Ward, will be reflected in charges to customers.

Retail spokesmen also note that the states already regulate consumer credit, that state governments are closer to the constituents, and can frame laws to fit unique local situations.

Twenty-five states now have retail installment sales acts requiring sellers to list and disclose in detail the essentials making up a sale. Retail installment sales laws are on the books in 42 states covering all goods, automobile sales only, or both.

"Each state tailors its disclo-

SHORTCHANGES
continued

sures law to fit the conditions prevalent in that state," Mr. Kimbrel notes. "In this way the states can regulate consumer credit in the manner best suited to the practices of its lenders.

"In fact, much state legislation includes vitally important elements of disclosure which do not appear in the Douglas bill.

"The bill fails to take into consideration the differing conditions which affect consumer credit in the various states."

"There is no question," says Clifford A. Allanson, executive director of the New York State Council of Retail Merchants, "that state governments can effectively regulate consumer interest.

"For example, New York State enacted laws in 1956 covering sales of motor vehicles and in 1957 covering sales of merchandise generally which provide adequate protection.

"Under New York State laws the seller must provide the buyer with full information regarding all phases of a contract or agreement.

"Customers are not only protected by receiving fully detailed information but limitations are imposed on the amount of carrying charges which can be levied."

Robert J. McKinsey, general counsel of the National Independent Automobile Dealers Association, points out that state legislatures are fully acquainted with the specifics and variations of credit financing in their own states.

Federal control, its opponents note, would have the octopus reach of wartime price control acts. Whatever agency would be designated to administer the law—Federal Reserve Board or Federal Trade Commission—the specter of a national police force to investigate strictly local violations is raised.

Chairman William McChesney Martin, Jr., testified that the Federal Reserve Board did not want the responsibility of administering the Douglas bill introduced in the last congressional session.

FTC Chairman Paul Rand Dixon also conceded that "the problems of administration would be tremendous."

Mr. Gosnell notes:

"Government regulatory inspection would have to be based on some type of reporting system, and even though on a spot-check basis the impact on the small business community would be especially severe. Even to try to enforce such a law on a spot-check basis would require a gigantic and expensive bureaucracy, and the remote possibility of effective results would make this a futile and wasteful project."

Any attempt at enforcement would require a "tremendous" number of inspectors, says Mr. Allanson, of the New York State Council of Retail Merchants.

What are the alternatives to the Douglas bill to check whatever abuses may exist?

Mr. Kimbrel expresses the consensus:

"The optimum in the way of an alternative to this type of legislation would be, of course, voluntary full disclosure of finance charges by lenders and judicious credit and spending habits on the part of borrowers.

"I am inclined to agree with Senator Douglas, however, that this perfection is not likely to be achieved. It is in our approach to the remedies that we do not see eye to eye.

"I believe it would be extremely helpful for every class of credit extenders to have a creed or statement of principles to serve as a guidepost in establishing and maintaining sound credit practices.

"The American Bankers Association has had one for 22 years and, while there may be some banks which do not abide by its principles, the creed has been widely accepted and adhered to by most of our members.

"If voluntary compliance to certain rules cannot be made workable, then legislation is necessary—but at the state level. States already having disclosure laws should reexamine their statutes if abuses can be shown to exist and those states which do not have them should consider them at the earliest opportunity.

"As for the consumer, I have one definite recommendation to make. There is a need for more adequate education in basic economics. Consumer illiteracy is a phase of this over-all problem. I believe it can be substantially corrected by improving, upgrading and adding to present educational activities in the economics field.

"A certain amount of guidance in the fundamentals of finance will benefit the consumer much more than a 'simple annual rate' requirement.

"I am convinced that good habits and prudent judgment can be taught.

"They cannot be legislated." **END**

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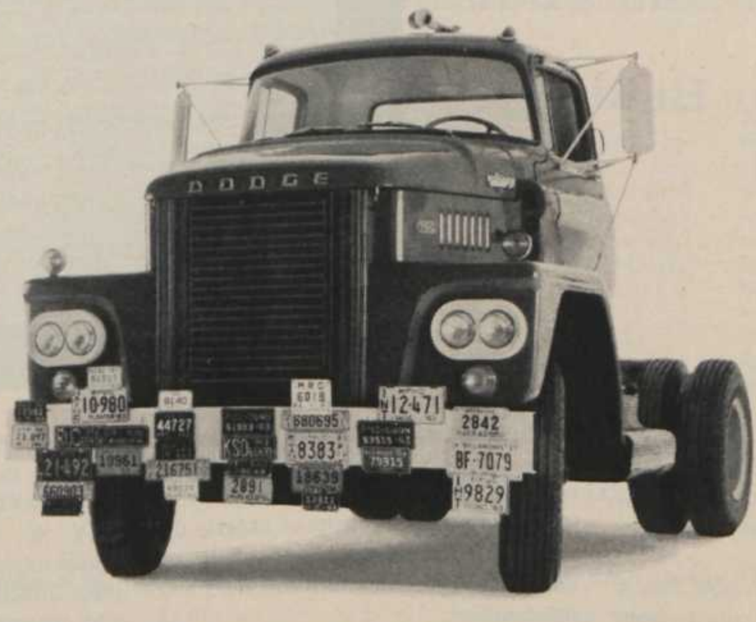

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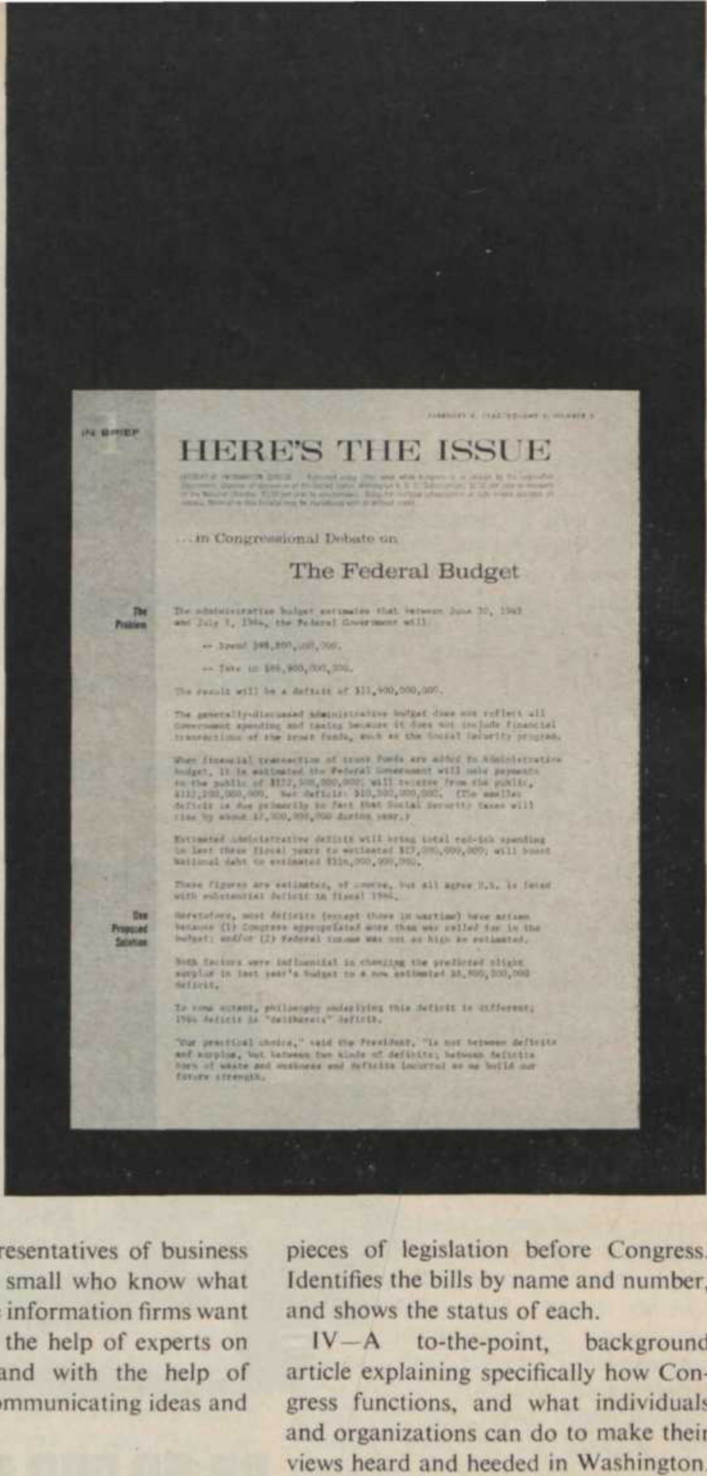

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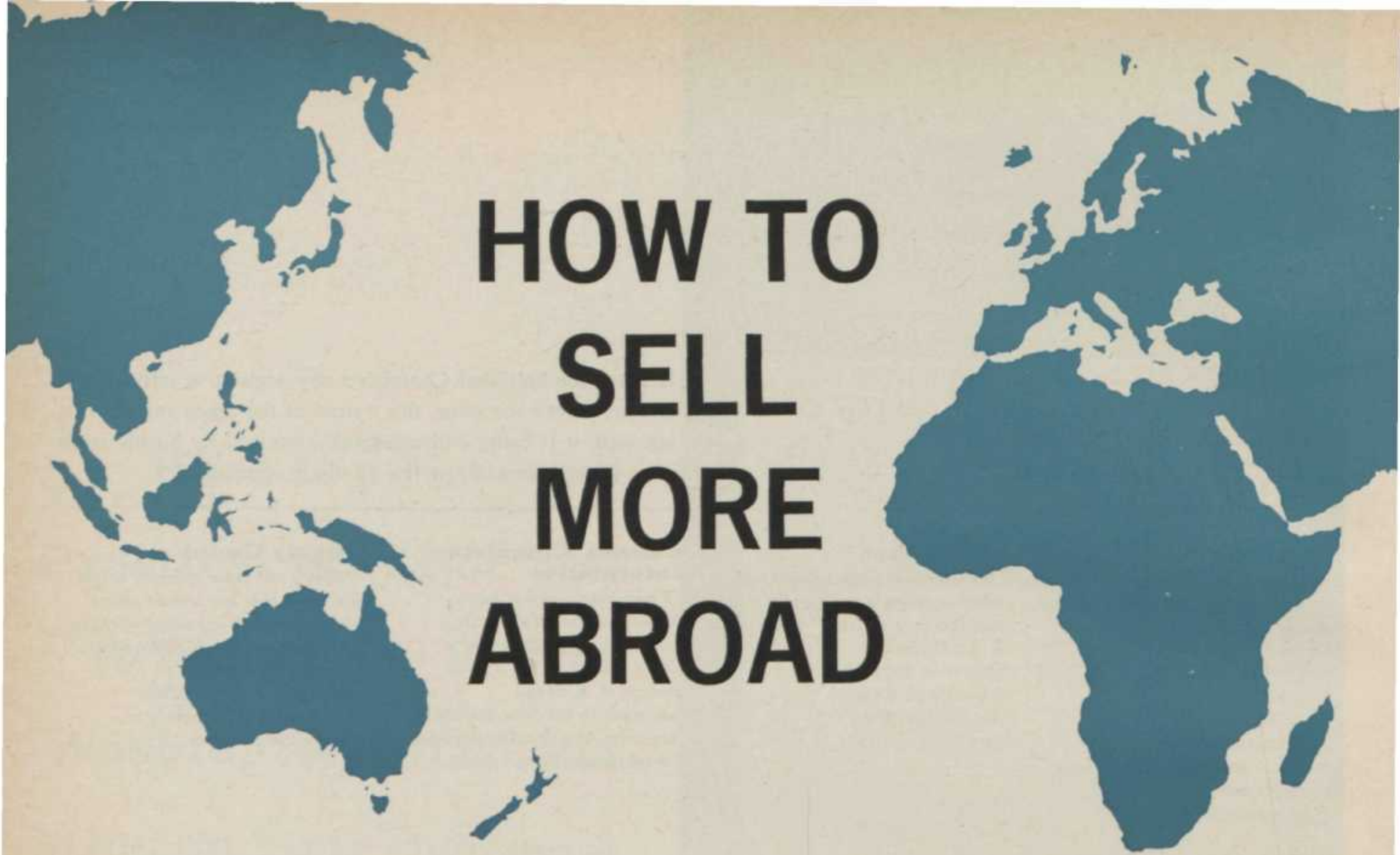

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Likewise the manufacturing plants of many companies are still unevenly distributed with large plants dominating small markets, small plants clinging to large markets, and no plants operating in many parts of the world.

Here is a simplified, practical approach which can help you to close these gaps, and select expansion projects which will have maximum economic usefulness, competitive strength, and profits.

There are now some 115 countries in the world outside the communist camp. Most countries differ from each other. Also, many American companies have diversified so that they now deal in many products, each of which may have numerous uses. Thorough market surveys covering each product in each foreign country can cost millions of dollars. Engineering or acquisition surveys could cost still more millions. Preliminary expenditures could be prohibitive.

Danger of simplification

To simplify the task of market selection abroad, a company may be tempted to limit its investigations to the largest markets, such as the European Common Market, to markets where its competitors have already done well, to countries which are currently in the news, or to specific joint ventures proposed by foreign companies.

Unfortunately, these measures would eliminate many excellent opportunities and retain many poor ones. Also they would concentrate on possibilities which are already well known to competitors. Finally, such arbitrary selections can lead to a dangerous reliance on estimating future profits for an individual project, whereas changing competition often converts anticipated profits into long-term losses.

No company can afford these luxuries. Successful strategy must consider all opportunities, select only the best ones, and take advantage of them promptly.

The first step is to analyze, not the outside world, but the company itself. Define the assets which might have competitive value abroad. The possibilities, of course, include new products; high-quality products; famous brand names; patents; technical, marketing, or manufacturing know-how; management systems; managerial talent, and funds for investment.

Make a list of your company's products. Then make, for each, individual ratings of your company's competitive sales growth experience and profit experience both at home and abroad. For each product, identify and rate the principal competitive assets your company has, including any special advantages applicable to particular climates or particular types of economies. The list should also show whatever advantages there are in manufacturing or marketing any of your products in combination with each other.

This kind of information makes it easier to select the products which should be widely marketed, licensed, or manufactured abroad.

The second step also involves an examination of your company. Production executives should be asked to list for each selected product: approximate plant size needed to achieve minimum unit production costs, and the minimum plant capacities which would be practical in foreign countries, assuming only moderate local protection against competing imports. These rough estimates can be based on production costs in the United States, but lower foreign wage rates and facts already learned from your overseas manufacturing should be taken into account.

The third step is for production and financial executives to provide:

1. Approximate labor expense contained in each product, as per cent of production cost or of sales value.
2. Approximate margin between raw materials cost and sales value for each product, as percentage of raw materials cost. Both your domestic and foreign data should be shown if available.
3. List of principal raw materials and other resources needed for each product.

The fourth step is for your sales manager to recommend approximately what minimum sales volumes of your product lines, separately or in combination, might justify establishing a selling branch in any foreign country. He also should recommend any special marketing techniques which would help you enter or expand in foreign markets. Such techniques might include tie-in sales or joint marketing programs. For some products, it might be useful to give customers technical assistance, or to encourage local companies to manufacture or market items which would require the use of your products.

The fifth step is for your marketing staff to prepare a check list showing, for each product, what types of good customers might exist in any country. This list will be based chiefly on your company's past experience. It should show both ultimate buyers and any important intermediary purchasers or purchase-specifiers, such as contractor supply houses, wholesalers, architects, and the like. This check list will be an essential starting point for market research. Copies can also be given immediately to your sales managers, salesmen, and distributors for their guidance in finding new customers.

The sixth step is to have reports prepared, similar to the ones just described, for all new products or services your company is developing.

Examine the outside world

The steps which can now be taken by your market research people include:

▶ Define any simple quantitative relationships between potential consumption of any of your products and readily available economic statistics. If it is known from past experience in the U. S. or other countries where a good cheap product is readily available and efficiently marketed that normal consumption depends on population, on the output of certain customer-industries, or on other indicators, these facts should be clearly stated.

For example, in the United States for many years annual consumption of automotive storage batteries has been running 35 to 40 per cent of the number of motor vehicles.

▶ Determine where the major potential foreign markets for your products are, and roughly how big these markets are. The procedures will depend on the products concerned. If you have defined a reliable relationship between consumption of a product in a well supplied market and certain economic statistics which are available for most markets, the task is simple. Likewise, if a product is sold only to one or two customer industries, for which the relationship between those industries' outputs and their requirements for your product are well defined, the task can be simple. The "United Nations Statistical Year Book" provides annual production data for some 150 industries in physical units for nearly every country in the world .

Even if the relationships are not well defined, it is still possible to determine orders of magnitude of market potentials by using the relative sizes of customer industries or other indicators in the various countries.

For example, let us assume that your company manufactures a variety of industrial products, and that you have already prepared the check lists showing the types of potential customers for each product. A table can be drawn up, showing the names of your important customer industries across the top, and the names of your products down the side. Check marks can be filled in on the table wherever a given product is used extensively in a given industry.

A second table should be drawn up, again showing the names of the customer industries across the top, but with the names of the world's countries down the side. The table should be filled in with the production figures of each substantial customer industry in each country.

By applying one table against the other, the researcher can prepare a list showing, for each country of the world, which of your products have substantial market potentials, and what major customer industries exist for each of these products in each country. The major customer industries in this list will be large by world-wide standards, not merely the leading industries in a particular country.

This list will help in making the preliminary selection of foreign branch or manufacturing opportunities. Copies of it also can be distributed immediately to overseas salesmen and distributors. A list

FOREIGN SELLING

continued

of this type is even more useful if it shows your company's annual sales of each product in each country. This usually reveals startling opportunities for greater sales.

▶ Try to determine what amounts of your products are imported by the various countries in the world. Such data are often hard to obtain, but it may be worth the effort. In some cases product import data can be obtained from foreign consulates.

Alternatively, such imports often can be determined adequately from the export data of principal exporting countries.

The existence of substantial imports of a product into a given country, of course, indicates possible opportunities for manufacturing the product locally. Also, such data—together with your company's exports of the same products to the same countries—can reveal opportunities for greater export sales.

▶ Try to determine, for as many products and countries as practical, the past and present consumption levels. Some consumption data are reported, and often they can be estimated from data covering imports, local production, and exports, if any.

▶ For appropriate types of products, compare local consumption with estimated market potentials. Such comparisons will reveal opportunities where market penetration is still weak.

Review your present sales volumes for each product in each country, and estimate what future sales volumes might be obtained by using any special marketing techniques recommended by the sales manager, or by opening new foreign branches or factories.

▶ Using the minimum volumes which the production and sales managers have already recommended, sort out the estimated future sales volumes according to whether they might justify new local factories, new selling branches, special sales efforts, or no action at all.

▶ Try to obtain data from selected foreign countries on local raw material costs and local sales prices for your products. The data can be obtained from your overseas personnel, distributors, customers, or suppliers. The aim is to determine the margins between raw material costs and selling prices and express these margins as percentages of the raw material costs. You can then compare the margins in the different countries with each other and with your company's margins, to determine where foreign manufacturers may be inefficient.

▶ Find out the tariff rates, import taxes, and other import restrictions on your product lines in foreign countries. High tariffs or strict import controls are another indicator of possible inefficiency of local manufacturing.

▶ Alert the company's overseas personnel to report information about competition in foreign countries, particularly sales, production, plant capacities, distribution systems, efficiency, product quality, profits, and plans for expansion or modernization. Also, the numbers of local manufacturers of each of your product lines, and approximate numbers of imported brands in the local market. The existence of only one or two local competitors, or at the other extreme, the existence of many small competitors, may indicate that competition is weak or inefficient.

General information about foreign competition can sometimes be obtained through consulates, foreign securities dealers in the United States, banks, and the U. S. Department of Commerce.

▶ Welcome any specific leads about expansion opportunities which you receive from banks, industry associations, U. S. government agencies, international lending agencies, foreign governments, or your own representatives abroad.

Your company may want to take the initiative of writing to these sources. Your letters can describe briefly your product lines, the chief advantages you have to offer, and the types of opportunities you seek. Several large American corporations have undertaken this approach, working through international investment bankers.

Any communications of this type should be prepared with the help of an attorney, so that there will be no future misunderstandings about compensation for finding such opportunities. Later on, any incoming suggestions for collaboration with foreign companies can be screened by sending the companies questionnaires. The responses also will give an indication whether the companies are serious and capable.

▶ Scan newspapers, periodicals and publications of the Department of Commerce, Chamber of Commerce of the United States, National For-

eign Trade Council, United Nations, International Monetary Fund, banks, and foreign governments. Gather and organize news about new projects or industrial expansion overseas which would increase your sales opportunities, about competitors, political and economic trends, local availability of raw materials, laws and taxes, investment incentives, and specific opportunities to collaborate with foreign businessmen.

► Now your market research staff will be able to prepare a preliminary list of first-class market opportunities. The opportunities can be arranged geographically, together with the reasons for considering them and the outstanding advantages and disadvantages of each.

Further evaluation and selection

To complete the selection program, you should emphasize several other criteria for long-range success:

Apply your company's strongest assets where they are most needed. For example, in highly industrialized Japan, your managerial and marketing know-how may have less competitive value than your technical know-how or new products or styles. In less developed countries, all types of know-how may have value.

In the new common markets your experience with large markets can have special value. Also, new ideas can be introduced without disrupting your existing facilities.

Attention should be given to what economists call comparative advantage. This means that it is usually best to manufacture products with high labor content in areas where wage rates are low, and to establish enterprises in areas where the necessary raw materials and other resources are plentiful and cheap. It is also best to avoid manufacturing in small markets those products which can be produced significantly cheaper in large-scale plants, or which will use up scarce local supplies of power or trained personnel.

These factors are automatically taken into account when selecting plant locations inside the U. S. However, some countries offer special tax incentives or protection against competing imports. Sometimes these incentives unintentionally encourage the establishment of industries which are not well suited to the country's comparative advantages.

On the other hand, industries

FOREIGN SELLING

continued

which fit in well with local economies can look forward to long-range success. They will enjoy good local reputations, will be able to compete against imports, and may eventually be able to export. A company which bases its expansion on these principles is well on the way toward becoming a truly international corporation.

Closely related is the need to conserve the scarce foreign exchange resources of less developed countries. Usually this means not to establish a plant in a less developed country to manufacture products which are chronically surplus in world markets, or which would require large proportions of imported equipment, imported raw materials, or expatriate personnel.

Usually, it is not profitable to try to take stable markets away from competitors after they have already established themselves, especially if they already have expensive local plants with large capacities.

This would involve high-cost marketing, manufacturing at a level below the capacity of your new plant, or forcing your competitors to do the same—certainly not a profitable situation.

By contrast, priority should be given to markets where you can introduce anything new or better—products, styles, marketing methods, or manufacturing techniques. Likewise, priority should be given to markets which are growing, where local manufacturing capacity is too small, where competition is inefficient, where competition is monopolistic and overprivileged, where quality is poor, or where market penetration is weak.

In all these situations the strategic advantage can be gained by fast action. Gradual approaches, such as building up your export sales until they justify installing a local branch or factory, may alert competitors to move in first.

Sometimes the countries where political risks are evident or where economies are unsettled are also the areas where competition is weak and where profit opportunities are great. For example, judging from data reported to the U. S. Department of Commerce, the profits of American-owned manufacturing investments in many parts of Asia and Africa have been high.

Sometimes countries which have had poor reputations among American investors have passed through a disillusioning period of governmental intervention and suspicion of foreign investors. Already they may be entering a period of sound improvement based on more enlightened public opinion. Turkey, Spain, and the Philippines are, in some respects, examples of such improvements.

Sometimes the most popular countries are resting on insecure foundations. A dramatic example was Cuba.

Politically, an immediate rule-of-thumb test is whether the existing government has at least the tacit support of a good majority of the population.

An important long-range consideration is whether there exists overconcentration of wealth together with industrial or agricultural monopolies, and if these problems exist, whether steps are being taken to correct them—steps such as rational land redistribution, agricultural modernization, inheritance taxes, graduated income taxes, antitrust laws, schools, and necessary social welfare projects.

Wherever overconcentrated wealth and monopoly continue uncorrected, local governments will be tempted to placate dissatisfied workers and farmers with deficit spending, inflationary labor policies, and direct interference in private enterprise. Likewise local monopolists will be tempted to try to shift unfavorable attention to foreign-owned investments. On the other hand, correction of such problems portends increasing safety and growing consumer markets.

Rising prices and depreciating exchange rates in foreign countries often give warning of poor administration or of the underlying troubles just mentioned. They often are followed by ill-advised controls on prices, credit, imports, and foreign exchange, all of which can crush profits and kill new investment plans.

Inflation and exchange depreciation, in themselves, are not necessarily disastrous for investors. Large investments have continued to be made in some countries where chronic inflation and exchange depreciation are problems, and some companies are still planning major projects.

When money is invested overseas, the effects of local inflation and depreciation in foreign exchange rates tend to offset each other.

Likewise, if a country's foreign exchange reserves are dwindling, and if depreciation or devaluation seems imminent, it may be wiser to

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postpone investing there. Your dollars will command larger amounts of local currency after the devaluation, and the outlook for the growth and safety of your enterprise will become clearer.

However, in the long run, for money invested overseas in tangible, noncash assets, the effects of local inflation and exchange depreciation generally offset each other.

Using the foregoing criteria, you can select priority lists of countries and products for on-the-scene investigation. A limited number of overseas surveys can now be undertaken. The number of markets to be surveyed has been reduced and the products involved are specific. The feasible strategies under consideration are clear, and the types of customers to be surveyed are known. The check lists, questionnaires, and organized information already developed can be used as guides in these surveys.

Depending on countries and products involved, the overseas surveys can be carried out by your own staff, by overseas branches, or by outside specialists.

Results you can expect

These steps make it possible to select the best expansion projects from a vast array of theoretical possibilities without wasting time or money. There are, of course, many factors which can affect the profits of new enterprises, and most of them will change constantly in the future.

The margins between your company's costs and selling prices will depend ultimately on whether your enterprises fill economic needs better, faster, and more efficiently than your competitors.

If your company's global strategy responds swiftly to market demands which your competitors have not yet adequately supplied, if your enterprises are matched properly with local resources, and if your tactical operations are at least equal to those of your competitors, your enterprises inevitably will show rapid growth and rising profits. As international markets become more closely integrated, your company's strategic position will become increasingly envied. And in the countries where you expand, your company will merit increasing respect and good will.

—ADDISON S. BECKLEY

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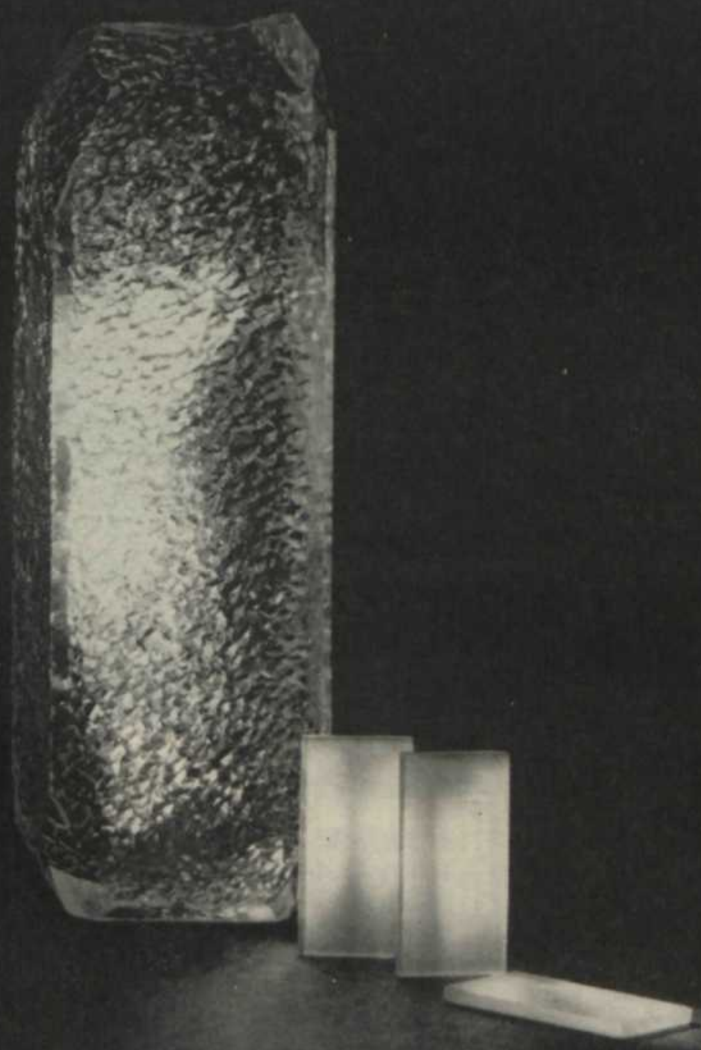

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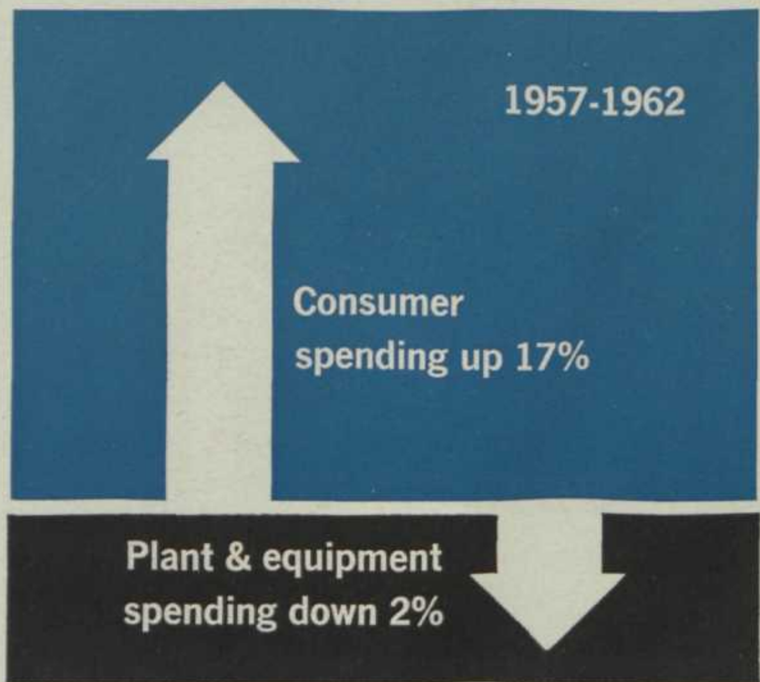
FIND THE LAG

JUST ABOUT every thoughtful person agrees that we need an income tax cut to stimulate our economy—and a spending cut to keep from bankrupting it.

President Kennedy favors stimulation of consumer spending by giving most of the tax cut to the lower brackets, even to the point of excusing millions from paying any federal income taxes at all.

Most businessmen point out that greater stimulation would come if job-making investments were encouraged by applying more of the proposed cut to the middle and higher tax brackets and to corporations.

Nearly all agree that the pattern of the last few years is not good. What is that pattern?



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